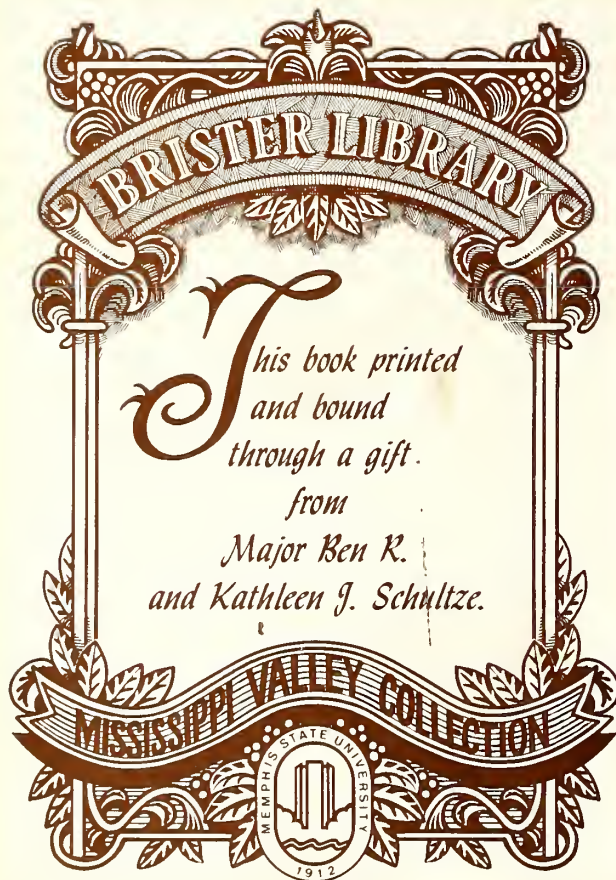


ORAL HISTORY OF THE TENNESSEE VALLEY AUTHORITY
INTERVIEWS WITH
ERIC L. KOHLER

BY - CHARLES W. CRAWFORD
ORAL HISTORY RESEARCH OFFICE
MEMPHIS STATE UNIVERSITY



26297052

OHT 7/28/92



**MEMPHIS STATE UNIVERSITY
LIBRARIES**

MVC
TC
425
T2
K63x
1971

UNIVERSITY OF MEMPHIS LIBRARIES



3 2109 00699 6764



Digitized by the Internet Archive
in 2012 with funding from
LYRASIS Members and Sloan Foundation

<http://archive.org/details/oralhistoryoften00kohl>

ORAL HISTORY OF THE TENNESSEE VALLEY AUTHORITY

INTERVIEWS WITH ERIC L. KOHLER

FEBRUARY 18 - 19, 1971

BY CHARLES W. CRAWFORD

ORAL HISTORY RESEARCH OFFICE

MEMPHIS STATE UNIVERSITY

MEMPHIS STATE UNIVERSITY
ORAL HISTORY RESEARCH OFFICE

I hereby release all right, title, or interest in and to all of my tape-recorded memoirs to the Mississippi Valley Archives of the John Willard Brister Library of Memphis State University and declare that they may be used without any restriction whatsoever and may be copyrighted and published by the said Archives, which also may assign said copyright and publication rights to serious research scholars.

PLACE Chicago, Illinois

DATE March 18, 1971

Eric I. Kohler

(Interviewee)

Eric Kohler

Charles W. Crawford

(For the Mississippi Valley Archives
of the John Willard Brister Library
of Memphis State University)

THIS IS THE MEMPHIS STATE UNIVERSITY ORAL HISTORY RESEARCH OFFICE.
THE PROJECT IS AN ORAL HISTORY OF THE TENNESSEE VALLEY AUTHORITY.
THE DATE IS FEBRUARY 18, 1971, AT CHICAGO, ILLINOIS. THE INTERVIEW
IS WITH MR. ERIC L. KOHLER, FORMERLY WITH THE TENNESSEE VALLEY
AUTHORITY. THE RECORDING SPEED IS 1-7/8 INCHES PER SECOND.

DR. CRAWFORD: Mr. Kohler, I suggest that we deal with
this by getting a summary of your early life.
We might start at the beginning and cover your
training, education, and experience before you
became associated with TVA, which I believe was
in the year 1938.

MR. KOHLER: My early training included a major in
economics at the University of Michigan under
Professor Taylor, who was head of the department.
He was very much interested in the development
of accounting. Another professor there who actually
taught accounting but knew very little about it
was Professor David Friday. Both of those men
have passed out of the picture long since.

During my summer vacations as a student I was
the "cashier" at Mackinac Island (now a national park)

MR. KOHLER:
(Cont'd.)

in Michigan, a resort having a population of five hundred in the wintertime and ten thousand in the summer. That enabled me to come into contact with quite a number of people because I was acting as the unofficial banker for the community--working under George T. Arnold, who at that time owned many of the facilities on the Island, and who was the representative and ticket agent for 13 boatlines and 4 railroads, the owner of two hotels on the Island and a dealer in coal and other imported commodities. For all these operations I was the bookkeeper and a sort of financial manager. That experience in accounting and financial management served me in good stead in courses I was taking at the University of Michigan. However, it was my plan until after I got my bachelor's degree to go into journalism because I had had considerable writing experience up to that time. I had been the Associated Press correspondent for sports in Ann Arbor for two years before my graduation. I also had another major besides economics: English literature, and that had brought me into contact with a great many people in the literary world as it existed in Ann Arbor at that time.

MR. KOHLER:
(Con'td.)

However, that ambition was more or less thwarted by the fact that when I graduated with an A.B. degree the recommendation made to me by two or three people in Ann Arbor, particularly Professor David Friday, was that I come to Chicago and study under the man who was then head of the accounting department at Northwestern University, Arthur Andersen. Arthur Andersen had his own firm of public accountants which today is one of the largest in the world. At that time he was operating in a fairly small way, and he was doubling as a professor at the University. I took graduate courses under him, getting a Master's degree after a year's work. During the last month there I took the C.P.A. examination given by the state of Illinois and passed it. Immediately after that I became a charter member of the American Institute of Accountants, along with several other accountants in Chicago. My vocation in accounting was therefore pretty well established by these events.

I went to work for Arthur Andersen and his firm until the war came along (the First World War) and that took me out for a year and a half. It may be remembered that that was not a long war for the

MR. KOHLER:
(Cont'd.)

United States; at the end of it I came back at work for Arthur Andersen again. However, the opportunity for establishing my own firm of public accountants was suggested by another member of the Arthur Andersen staff and together we entered into a partnership and practiced in Chicago for almost ten years at the end of which time my partner withdrew and I turned what I had in the way of an accounting practice at that time over to my brother and three associates. Subsequently that firm was merged with Alexander Grant and Company which now is another large firm of public accountants, and the identity of my name in connection with that firm, of course, disappeared.

During the '20's I was also a professor at Northwestern University and co-authored a book on accounting theory and another on auditing. I also wrote a text on taxation which went through three editions, and, probably because of these activities, became the first accountant to be listed in Who's Who in America; this was in 1927.

But Arthur Andersen wanted me back, so for a period of four years, from 1933 to 1937, I

MR. KOHLER:
(Cont'd.)

worked for him in the capacity of a manager and quasi-partner, I suppose it could be called, with the task of developing the professional policies of the firm--accounting and auditing policies. I drew up a series of policy papers during those four years which were adopted and instituted. A good many of them are still in operation.

At the end of that four-year period I decided to set up a consulting accounting practice which would give me a little more leisure to be on my own and to do some writing; several projects I had already entered into. Among these was a dictionary of accounting. I had been urged to get busy on that particular project by Robert Montgomery of Lybrand, Ross Brothers and Montgomery, with whom I was closely associated for several years on professional committees and in other ways having to do with the American Institute of Accountants. So in 1937 I set up a consulting practice. Here again, I found that I had so many engagements to fill that I had little time for writing.

In the meantime I had been writing numerous articles dealing with accounting and management, and

MR. KOHLER:
(Cont'd.)

from 1928 to 1943, a period of fifteen years, I was editor of the "Accounting Review" which was the official publication of the American Accounting Association, and still is. I should add that The American Accounting Association was established in 1935 as the outgrowth of the American Association of University Instructors in Accounting (established in 1918). I was the first president (1935-36) of the renamed organization. I was elected its president again in 1946. So part of my activities all during the early thirties had to do with this organization and with the editing of the magazine. Altogether, I wrote forty-five editorials and many articles and reviews during that period several of which were rather controversial in character; in fact so controversial in some cases that I was looked upon with some trepidation by certain members of the profession. However, Arthur Andersen, my friend Montgomery, and others I considered to be at the top of the profession always stood by and encouraged me.

For one thing, the activity I was engaged in that I seemed to want to promote most was the formulation of accounting principles that might be

MR. KOHLER:
(Cont'd.)

followed in the preparation of corporate reports to stockholders. With the help of Howard Greer and others, a statement of such principles was approved by the executive committee of the AAA and was published in 1936 during the term of my first presidency. This pronouncement was informally adopted by the Securities and Exchange Commission and many quotations were and still are being made from it. I was told by SEC's chief accountant and chairman that the statement had been invaluable to them. The statement has been recast several times since, not entirely to my liking by the way.

In 1937 I was invited to visit the TVA by the board of directors. I first acted as a consultant. A good deal of trouble in their accounting and management operations had been experienced. The U. S. General Accounting office (GAO), the audit agency of the TVA and all other branches of the federal government, had been chaired by a man who was not an accountant; in fact, he had been a secretary of Senator Norris of Nebraska, often called the "father" of the TVA. He had bolted from the Norris camp in 1920 because he thought another man of the same name (Norris) was going to be elected Senator--a man who had been, I

MR. KOHLER:
(Cont'd.)

believe, a drugstore clerk. He was sponsored by the Republican party; whereas Senator Norris was running as an independent. The Senator was reelected overwhelmingly, so the poor ex-secretary was out of a job. The Budget and Accounting Act of 1921 had just been passed, and President Harding appointed this fellow as Comptroller-General, the constituted head of the GAO. He was completely unfitted for the job. He made a mess of everything. He had built up an agency whose activities from my point of view were completely abortive. The law had been drafted by the executive director of The Brookings Institution. He and I had numerous conversations on the subject and we were in agreement on the point that the man that was on the job was performing very badly. However, there was very little that could be done about the man at that time, since he had been appointed for a 15-year term.

When I became a TVA consultant in 1937 the first problem confronting me was a pack of GAO "exceptions": thousands of them. They stood almost a foot high and were in several volumes: transaction exceptions drafted as the result of what was then called "office" audits in the Washington headquarters

MR. KOHLER:
(Cont'd.)

of the General Accounting Office. They were related to individual paid vouchers. Usually the average audit clerk was a woman without any training who knew nothing about accounting or auditing but who had been told to look for certain things in TVA's paid vouchers to which "exceptions" could be taken: something lacking in the record, such as a signature, or an approval, or some act of administration, an imperfect certification by a contractor, and so on.

These "exceptions" had been piling up over the first five years of the TVA's operation (1933-1938) and they came to the attention of the Edison Electric Institute which was the national association of private-power companies at that time. The EEI not only republished the whole accumulation of exceptions but gave copies to each member of a joint committee of the Congress to investigate the Institute's allegations of financial mismanagement within the TVA.

These exceptions fascinated me because they were all unimportant and involved different kinds of paper work from which the GAO's audit clerks had drawn conclusions that were both fantastic and

MR. KOHLER:
(Cont'd.)

irresponsible. TVA, of course, was one of the first governmental corporations. Its authority as a corporation was spelled out in the TVA Act of 1933, and a three-man board of directors appointed by the President had been provided for. When I arrived at the TVA this same board was holding forth after five years of operations. The board regarded the GAO's "exceptions" as ridiculous and had paid no attention whatever to them. However, the Comptroller-General had been trying to indicate to the Congress that it had better do something about the TVA because many of the charges were of a "criminal" nature. That's the way he described them: even peculations by TVA officials.

And so, as I say, when I arrived I was faced with the questions: "What are we going to do about these? Can you help us eliminate them?" Well, there were other problems to be faced at the same time because in 1934 IBM had sold the TVA a bill of goods on punchcard equipment--a whole roomful of IBM equipment the TVA was renting for seventeen hundred dollars a month. The bookkeeping was two years behind when I arrived. In other words the records had been completed only up to about 1936.

MR. KOHLER:
(Cont'd.)

So I recommended that all the equipment be returned to the lessors, and that the records be redrafted right from the beginning. IBM even then had a pretty strong strangle-hold on the government, just as it has today. There is more IBM equipment lying idle around the federal government than active equipment. And that was true of TVA in 1936. The equipment was without any practical use and was gumming everything up. So after talking everything over with TVA's Board members they made the proposition to me of coming to Knoxville on a full-time basis. They would give me unlimited authority to do whatever I wanted to do, not only to dispose of the exceptions I was speaking of, but also to completely recast and modernize the financial records.

So I became the controller. It fascinated me very greatly because I could see a creative opportunity there. Over the three months I spent as a consultant I had been able to devote only about six or eight days to TVA's problems. I wound up accepting the job of controller on May 1, 1938. When I did so, I found out that my professional brethern in various parts of the country were very enthusiastic about it, which was something I hadn't

MR. KOHLER:
(Cont'd.)

expected. But they knew just enough about TVA and the scandals that were supposed to be connected with the TVA finances to know that something had to be straightened out by somebody. And they hoped, of course, that I could get to the bottom of it. Having already established myself as somewhat of an independent, I was prepared to do some kind of a mopping-up job.

The Wall Street Journal announced the appointment. It was in the local papers and, of course, The Chicago Tribune, which had bitterly opposed the whole TVA idea. Both papers were skeptical because they had been styling the TVA as a socialistic monster without honor in a capitalist society. But they were flabbergasted by the fact that I had become the TVA controller and they looked up my record, my reputation, and talked to Arthur Andersen and others and had some very curious stories as to why I went there. And, of course, the Edison Electric Institute prophesized no salvation for the TVA. Immediately after I accepted the job I was made chairman of TVA's financial-policy committee which had been in existence for two years. A struggle had been made

MR. KOHLER:
(Cont'd.)

by this committee to establish a basis for allocating the common costs of the dams the TVA was engaged in building and putting to use. Common costs are distinguished from direct costs, the latter consisting of generators and other equipment essential to the operation of any power project; there were also direct costs of navigational aids, flood protection, and so on. The common cost consisting of the dam, purchased land rights, the removal of trees, even houses from prospective reservoirs, access roads to the lakes behind the dams, relocation of homes, and so on. The common costs had been considerable, and under the TVA Act the purposes of the TVA were to establish flood control, navigation, and power in the Tennessee Valley. Power was added to the words of the act by Senator Norris, who had been advocating the establishment of such an organization since the early 1920's. The financial-policy committee possessed several feet of reports prepared by a variety of economists, engineers, and public-works consultants, as to how the allocations should be made. Several methods had been seriously considered.

Members of the committee were engineers, two economists, a lawyer, and TVA's chief counsel.

MR. KOHLER:
(Cont'd.)

After a month's debate under my chairmanship the committee finally decided that there was only one realistic method of allocation; every other method that had been argued for previously had fatal defects. The debate could have gone on for years. To me it was foolhardy to try to establish an involved mathematical, objective formula for the allocation; I proposed a judgment basis of 40% (power), 30% (navigation) and 30% (flood control), which was almost immediately accepted by a majority of the committee's members. That solved the problem. At the end of May we had prepared a report to the board of directors incorporating these figures. The board approved the report and transmitted it to the president as required by the TVA Act. On June 15, 1938, President Roosevelt approved it and, under the law, it became binding. And ever since, that same method has been followed, even today, with variations of only one or two percent.

DR. CRAWFORD: Can you explain how that method worked at the time?

MR. KOHLER: Several methods had been proposed, with conclusions varying between thirty-five to forty-five

MR. KOHLER:
(Cont'd.)

percent for power with the balance for the common costs distributed more or less equally between the navigation and flood control. I pointed out to the committee that no matter what basis was established at least it must be one that could be approved by the whole committee. As compared with the judgment basis the practical effects of choosing any other basis were so small that the judgment basis, free of mathematical formulas, ought to hold because everybody could understand it. One of the heartiest supporters of this was David Lilienthal, then a TVA director. He thought that the new basis had cut the Gordian knot.

Well, that was one problem. But a bigger problem was rewriting TVA's accounting records for the first five years of its existence (1933-1938). TVA's financial statements had been utterly meaningless. In the first place none of them were current. The latest one was two years old in May 1938. My contention was that financial statements ought to appear not later than the fifth of the month following the transactions--that is, regular monthly statements. They hadn't even been preparing annual statements. So I got a group of almost

MR. KOHLER:
(Cont'd.)

fifty accountants from different public-accounting firms around the country, many of whom were loaned without costs to the TVA, others we paid nominal sums to. Some even paid for their own board while there. In the course of three months we reworked all the transactions of the TVA for the five-year period. The job was completed by August 31.

DR. CRAWFORD:

That's a very remarkable accomplishment. Can you tell me how you were able to get the team of fifty accountants?

MR. KOHLER:

The public-accounting profession was excited about what was going on in Knoxville. The interesting thing is that the accounting profession--believe it or not--had become socially minded to a remarkable extent, and by that I mean they had in mind what has been variously designated in subsequent years as consumer interest and interest in the people as a whole, the equality of opportunity and that kind of thing: in other words things that the Democratic Party as a rule has stood for. Some professional accountants like Arthur Andersen, for example, regarded themselves as rock-bound Republicans. Why? Because of their clients. The executives

MR. KOHLER:
(Cont'd.)

of many of AA's clients were professed Republicans: Sewell Avery, for example. The two or them used to play golf together. Avery regarded Democrats as villains, dangerous people who should be eliminated. Arthur didn't quite agree with all that. Secretly, you see, he was as socially minded as I was, just as much as almost any other professional accountant was.

DR. CRAWFORD:

It makes sense when you think of it but I had assumed the superficial appearance to be true, that accountants did tend to be Republicans.

MR. KOHLER:

Well, they may have been Republicans nominally, just like many businessmen who call themselves Christians and who got to church on Sunday. They may be members of a religious denomination but do they adhere to the tenets of the denomination on the other six days of the week? Of course, the answer is obvious, especially when they're deeply immersed in business.

No, as a matter of fact I got letters at the time from heads of various accounting firms offering to help. My impression was that they

MR. KOHLER: wanted to see TVA put on a basis that the country
(Cont'd.) could be proud of.

DR. CRAWFORD: How did they know that things were not in good
order?

MR. KOHLER: Because the Edison Electric Institute had
carried on a ceaseless, vicious campaign throughout
the country and was saying that the whole TVA
structure was rotten to the core. Its theme song
was that the TVA should be disposed of to private
interests.

DR. CRAWFORD: To the private power companies?

MR. KOHLER: Yes, because the private power companies knew
what a profit-making enterprise the TVA could be.
And by the way, I have been getting monthly reports
from the TVA ever since I left there in 1941. I
just got one covering one month (February, 1972).
The net profit for that one month, after depreciation
and interest, was seventeen million dollars. That
profit is computed in the same way that any
conventional business organization would compute
its profit; and fifteen million dollars for the

MR. KOHLER: previous month (January 1972).
(Cont'd.)

DR. CRAWFORD: And can you recognize your own accounting procedures in that?

MR. KOHLER: Oh, yes, it hasn't been changed. That's one reason I went down there a month ago--in anticipation of this interview--to find out what changes had been made. There have been no changes. The comptroller stated to me: "I have made no changes whatever in your accounting policies. I want you to know that. Every once in a while I reread your original policy statement in order to make sure that we are still adhering to them. There have been no exceptions." He also referred to an article I have in my Dictionary for Accountants under "activity accounting". He has adhered to that strictly. It's a form of accounting suited for organizations like the TVA.

DR. CRAWFORD: I think A. R. Jones discussed that to some degree.

MR. KOHLER: Yes, he is familiar with the basis. I can go into that in a very general way later on, perhaps.

MR. KOHLER:
(Cont'd.)

In the course of approximately three months TVA's accounts for the five-year period were completely rewritten.

DR. CRAWFORD:

You did that in very short order. You did that within about a month and a half after arriving.

MR. KOHLER:

Including the preparation of financial statements and a lengthy narrative report the job was completed by August 31. But I might say that the group that did it (there were about fifty in number and about half of them were CPA's that I had borrowed from different organizations) were all working as a team, rewriting these accounts.

DR. CRAWFORD:

What sort of people did you try to select? Did you recruit from a given area of the country or select a certain type of accountant?

MR. KOHLER:

No, I felt safe in taking the people that had been loaned to me. And some of them sent by public-accounting firms were easily the best people they had; a few managers were included.

DR. CRAWFORD:

How did you appeal for them?

MR. KOHLER: I didn't appeal for them. They appealed to me. An article in The Wall Street Journal started the whole thing.

DR. CRAWFORD: Did any one person organize this? Did you have fifty individual offers?

MR. KOHLER: There were individual and firm offers. I didn't go beyond these offers. To the question "how many people shall we send down?" I'd reply maybe two or three because I wanted to get as diverse and widespread a group as possible. I had possibly a thousand applications from accountants who wanted a TVA job. You will remember that those were still Depression years and public-accountant firms were not very busy. They could afford those loans. Furthermore, they wanted to have the experience, because, as I said before, TVA was one of the first government corporations and they thought there would be some precedents established that they ought to know about; they anticipated making installations for and audits of government organizations. Moreover, I had already made a public announcement that we would have an annual audit by certified public

MR. KOHLER: accountants.
(Cont'd.)

DR. CRAWFORD: Before we go any further, may I ask a few questions? What basis was there to the Edison Electric Institute's charges of maladministration or corruption?

MR. KOHLER: There was no basis. They were all manufactured stories. They were anchored very largely on hearsay and hearsay had been written into "exceptions" that had been made by the General Accounting Office up to that time. The GAO had been a most ineffective organization since its inception in 1921. It didn't have one accountant among its fifteen thousand employees: not one accountant who could conduct an audit in the customary meaning of that term.

DR. CRAWFORD: Why was it not managed more professionally?

MR. KOHLER: Because there had been no general policy determinations of its functions. Up to that time accountants had not interested themselves in the government. Some of us like myself had done some work for several states. For example, I put in a accounting system for the state of Illinois with

MR. KOHLER: the help of another accountant back in 1934: Lloyd
(Cont'd.) Morey. Did you ever hear of him?

DR. CRAWFORD: No, sir.

MR. KOHLER: Well, his career included the presidency of the University of Illinois. But he had been before that controller of the University. He and I had passed the CPA examination the same year and we had always been in close contact. For one thing, we were interested in establishing a systems of accounting for the state, and some elements of that system were installed and are still there. But it wasn't common at that time for professional accountants to interest themselves in governmental affairs. I'm afraid most of them feared contamination by politics and politicians.

DR. CRAWFORD: But TVA was an exception, at least before it was over.

MR. KOHLER: Yes. But before 1938 there had been a large number of complaints against the TVA. Senator Robert Taft of Ohio, for example, and Senator Dirksen of Illinois, continued to repeat wild

MR. KOHLER:
(Cont'd.)

stories furnished them by the Edison Electric Institute. And the claims would be exactly the same. Only recently, running back through my old files I found a copy of a long letter I had written to a House Representative who was a CPA, one of the few CPAs that had ever been elected to the Congress. He in turn had taken the often quoted language of reports issued by the Edison Electric Institute and had reproduced it in a speech to the House. I told him I knew where his information had come from and I said that there were fabrications included in it and asked if he had made any attempt to verify the facts before he made the talk. He wrote back, saying that his information had come from the Library of Congress and that he would go back and find out what its sources had been. I never heard from him again. The poor man is now dead, but he had been thoroughly victimized. To certain people like Taft and Dirksen it was a popular thing for their party to denounce the TVA because it was a Roosevelt-Norris institution. Their emphasis was on "creeping socialism" and "bureaucratic waste". They said TVA was a prime example of an attempt to impose the government's will on a community.

DR. CRAWFORD: I suppose it was hard to deal with it objectively. I know the people in the area-- political leaders--felt compelled to defend it in the same way that people in some other areas felt it popular to attack TVA.

MR. KOHLER: Well, the Alabama Power Company which was Wendell Wilkie's Commonwealth Power Company subsidiary sent out bulletins, and I have samples somewhere in my files, claiming that if TVA ran high-tension power lines over the countryside cows wouldn't produce milk and would be rendered infertile, and that corn crops would be killed. That's the kind of thing that was in the wind at the time: anything to create enemies for the TVA.

DR. CRAWFORD: And these stories were repeated extensively, I suppose?

MR. KOHLER: Oh, yes. I should say so. But still many could see through it. If it hadn't been for Senator Norris I don't know whether TVA could have survived. But time after time he addressed the Senate on the accomplishments of the TVA, the TVA's current programs, what it hoped to accomplish in the

MR. KOHLER: future.
(Cont'd.)

When TVA's bookkeeping processes had been reconstituted, and IBM equipment had been removed . . .

DR. CRAWFORD: You did succeed in getting rid of the IBM equipment?

MR. KOHLER: Yes, all of it. One of the vice-presidents of IBM came to see me and he said, "Don't you realize that you're taking steps backward? Our equipment is going to be standard for all bookkeeping in this country." I said, "Well, suppose you take a look at what we've done here and what IBM didn't do." I spent four hours with that chap; he came out sweating, and said, "You've done the right thing. You've got a system here that we can't equal." All I did was introduce National Cash Register bookkeeping machines--three of them. They cost two thousand five hundred dollars apiece new and they're still in operation today. And the TVA had been paying thousands of dollars a month for IBM equipment that wasn't doing the job.

DR. CRAWFORD: You relied more on the skills of people, didn't you?

MR. KOHLER: No, not necessarily. At that time IBM personnel had had no training in bookkeeping requirements. All they did was follow a badly designed routine. Machine operators didn't know what the cards were punched for, what to look for.

 In August, three months after my arrival at the TVA, I paid a visit to the office of Lybrand, Ross Brothers and Montgomery in New York. Walter Staub was the top partner. I told him that the TVA had just rewritten its books for a period of five years and that we'd like to have his firm audit the reconstructed records. Right off the bat Staub said his firm would be delighted to do the job. I said, "I'm not so sure you're going to be happy about this in the end. I think we've got something to audit but on the other hand here you are--one of the biggest firms in the country auditing a reputedly socialistic organization, running the risk of being damned by Wall Street and the business world generally. For everybody's protection and certainly for mine, I suggest that it would be a good thing to defer your decision for a week until you've had a chance to get the reaction of your attorneys, people on Wall Street, and perhaps some of the

MR. KOHLER: trade journals. According to Walter, a week later,
(Cont'd.) the answer was unanimous: "Audit the TVA!"

DR. CRAWFORD: Well, were they expecting they would find
things in bad shape?

MR. KOHLER: They wanted to know the facts; they already
had listened to the propaganda. And so the
Lybrand people came to Knoxville with fifty-five
staff members and two partners to audit the TVA books.
We had this understanding: that in the course of
the audit--which was going to take two or three
months--if the three of us agreed on solutions to
problems that would be raised, none of the problems
would be referred to the New York office; they
would be resolved in Knoxville. If one of the
three of us, the two partners and myself, disagreed
with the other two, the partners would look to New
York for a decision. Not one point went to New
York. They agreed to everything that had been done.
They gave us an unqualified "short-form" report
covering the five-year period.

DR. CRAWFORD: Do accountants usually understand one another?
Do they communicate easily?

MR. KOHLER: Pretty well, yes. TVA's enemies did not anticipate an unqualified report nor did anyone else. I didn't even expect it. But they agreed with us on everything. And now to retrace my steps a bit. I had been in Knoxville about one month when a joint committee of the Congress was established to investigate the TVA because of the ugly rumors that had been circulating for more than a year. I didn't anticipate that that would occur. I didn't think that things had gone quite that far. The Committee came to Knoxville. The attorney for the Committee was Francis Biddle who later became the attorney general of the United States.

I became very well acquainted with Mr. Biddle and his wife. I found them very wonderful people to talk to. He was thoroughly convinced of the need for the TVA and the need for Congress backing it up in everything that it did. So the Committee, knowing it or not, had as its chief Attorney a champion of TVA. Despite that bias, he made what I regard as a first-rate analysis of the TVA structure and accomplishments. He made a careful review of the accounting policies I had drawn up; at no point was there any disagreement among the

MR. KOHLER:
(Cont'd.)

various witnesses he called before the Committee. I was to be the last witness because I was the newest member of the TVA staff; and I needed that time to become thoroughly acquainted with all of TVA's ins and outs.

So the investigating committee went ahead. I was asked to submit financial statements in October before the audit report had been prepared and before my testimony was to be given. I submitted statements prepared by my office. The auditors had not finished their tasks. I was taking a chance in presenting uncertified financial statements. Finally I came on as the last witness. I believe that was December 14, 1938. Mr. Biddle had carefully planned questions. It had been the custom for the attorney to present formal questions and the members of the Committee to interrupt whenever they think necessary, which most of them did. Some of them were very belligerent which amused me no end because more of their questions were superficial ones: questions which could be answered without effort and without research. I was on the stand five days altogether.

MR. KOHLER:
(Cont'd.)

The second day, December 15, the final, unqualified reports of the auditors were handed me. I had asked for enough copies to distribute to the members of this committee. The Committee had assembled at 9:30. One member was missing, a senator who was a faithful Republican. All of a sudden he appeared on the scene with a newspaper, headlines this deep--COSTER SHOOT'S HIMSELF. That's news to you? Coster? Did you ever hear of the McKesson-Robbins case?

DR. CRAWFORD:

Yes.

MR. KOHLER:

Coster, described as a one-time gangster, and his brother had gotten control of the McKessen-Robbins drug firm. The quality of the drugs had not been tampered with, however. As president and treasurer, they had milked the company's treasury by creating false receivables and inventories. Their methods had been so adroit as to deceive their auditors over a period of five years: Price Waterhouse and Company. One of the company's directors had suspicions of something wrong. He conducted an investigation of his own and uncovered a false inventory and receivable, both of which had been

MR. KOHLER:
(Cont'd.)

recorded as assets in the McKesson-Robbins balance sheets. Coster, the president of the corporation, lived in Connecticut. As the police approached his home that morning to pick him up he turned a gun on himself. But the point was that for a period of five years Price Waterhouse had submitted unqualified reports on McKesson-Robbins when millions should have been omitted.

DR. CRAWFORD:

And that headline appeared on the day you submitted the Lybrand audit to the Congressional Committee?

MR. KOHLER:

Yes. That same morning. The senator tossed his copy of the Lybrand report in a waste basket, saying: "audits don't mean anything." Well, I was completely flabbergasted. In fact I think I must have almost fainted because I had been building up the authenticity of the Lybrand report and I thought I had been getting the idea across. But Biddle came to my rescue and he did a masterful job describing the function of auditing and the worth of audit reports he had encountered in his experience as an attorney.

DR. CRAWFORD: Do you remember what senator that was?

MR. KOHLER: No, I don't. It may be in the record. Anyway he gave this senator an admirable off-the-record lecture on accounting and auditing. He had had many contacts with accountants and auditors, whereas the senator had had none. Furthermore he had familiarized himself with TVA's financial data that we had compiled. The senator was actually shame-faced. The other members of the Committee laughed at him because he had been downed completely. They accepted the report. It's in the record of that Committee. So you might say that that turned out to be the crowning point of that year as far as I was concerned because the Committee did accept it and Biddle was extremely enthusiastic about the result and wrote quite a bit on the subject later on. It got into the Congressional Record in one form or another.

Well, from that point on, each year the TVA has been audited. For a while the Congress forbade government corporations being audited by public accountants, but a new comptroller general had the law amended so that he could appoint public accountants.

MR. KOHLER: Today the Lybrand firm is still doing the audit.
(Cont'd.)

DR. CRAWFORD: From 1933 on?

MR. KOHLER: From '33 on, yes. I spoke of two partners who conducted the TVA audit. One is now dead, the other retired and is living in New Jersey. The revised accounting methods made possible a new system of management for the whole organization. I can say that now with some confidence, although I wouldn't have said it then. But they had had the opportunity of doing it in previous years and hadn't; so when I came down there and provided the machinery to accomplish it they all fell in line; Paul Ager, for example, and one or two of the others that you mentioned. Furthermore, I had an outstanding assistant, Jerry Stone. Had you heard his name mentioned?

DR. CRAWFORD: Yes.

MR. KOHLER: I made him assistant controller. He lives in Kingsport, Tennessee and heads a credit agency. He is a CPA, and a graduate of the state university.

MR. KOHLER:
(Cont'd.)

Before 1938 TVA had no general manager. The three directors had been both the determinaters of policies and had divided the administration of the corporation between themselves. That combination hadn't worked. You can't do that in a good organization. From 1938, operating responsibilities were in the hands of a general manager. What I was aiming to do was to put in a system of activity accounting which would fit into the new administrative setup. It took about a year to complete.

At that time there were about fifteen hundred activities constituting the TVA. They've been reduced since. An activity, as I defined it, is any kind of operation where people are involved and where you have a boss, if it's only a straw boss. The TVA had been getting into all kinds of things. A whole string of organizational subauthorities had been created. I had neither the desire nor authority to modify or cancel an activity. Whether an activity should be initiated or continued was a decision of the top administration; my job, as I conceived it, was to delineate, in operating terms, the authority given each activity head and, through a combined system of budgeting, accounting, and

MR. KOHLER:
(Cont'd.)

reporting, to have him more clearly recognizing his responsibility. One effect was to bring the accomplishments of each activity to the upper levels of management, so that the ultimate responsibility for every activity would extend to the board of directors through the general manager.

This required that the annual budget be prepared on an activity basis from 1939 on, with each activity clearly defined. By a sort of common consent, it had been left to the controller to define and redefine activities. I had an able helper for this task, Bill Rowe, a CPA and a graduate of the local university. He was well acquainted with the TVA staff and had the ability to get anywhere and everywhere and be accepted by everybody. He made sure that each activity was defined in terms of the personnel in it, who had been given the authority to carry out the activity's functions, and the range of the activity's interests, all spelled out in the course of a relatively few words capable of being understood by outsiders as well as the activity head and the board of directors.

DR. CRAWFORD:

He thus identified everything in the TVA by

DR. CRAWFORD: activity?
(Cont'd.)

MR. KOHLER: That's right. Everything and everybody in the TVA by activity. And then the budget was set up with limitations imposed on the head of the activity, as relating to both expenditures, personnel number and grades, and character of operations. In this way operating authority and administrative restraints were redefined each year as a new budget was proposed. Now this one man in one year was able to review and clearly define TVA's fifteen hundred activities, and to provide for a method of annual reappraisals. He did a top job.

DR. CRAWFORD: Did you make any attempt to limit activities-- to combine them?

MR. KOHLER: Later on we did, yes. The thing I wanted to do was to bring into the open the actual--as opposed to the assigned--activities that the TVA was carrying on; overstepping of boundaries and duplication of effort were among the things we looked for.

DR. CRAWFORD: Did you have any difficulty defining or

DR. CRAWFORD: establishing what all these activities were doing?
(Cont'd.)

MR. KOHLER: No. Perhaps the most difficult task was to
boil down what they said they were doing into
realistic, understandable terms. We had to find
out precisely what was going on, what people were
doing currently; how they were spending their time.
Perhaps a car had been assigned to them. TVA at
that time had two thousand automobiles in operation;
something like nine hundred at the present time.
I just checked that figure the other day. How
were these cars being used? That characterizes
what we were after. In some cases the description
of what was being done was pretty tenuous. But
whatever Rowe set down, the head of the activity had
to approve. The activity head didn't realize in
some cases that in approving the language he was
voting himself out of business or progressing to
modified assignments of authority.

DR. CRAWFORD: Did you have any arguments about the descriptions?

MR. KOHLER: No, not serious ones, and none in the end.
I participated in some of the arguments, my point
of view being that if an activity couldn't be

MR. KOHLER:
(Cont'd.)

defined in terms of what it was doing, perhaps it wasn't worth doing. It had to be a firm something that other people could understand and approve, and agree to, or disagree with. The collected activity writeups became an operating manual. And that's the way it is today. The directors of TVA were able to detect, for example, duplications, and to modify numerous conceptual flaws. They were encouraged to question individual activities and to eliminate and consolidate. I estimated at the time that we saved at least a million dollars the first year by activity reconstruction and realignments. From that point on the TVA has been on a much-better-management basis. That's one thing I wanted to verify. I feel safe in making these statements to you after my recent visit to the Authority.

One of the things provided by Senator Norris in framing the Act was that distributors of TVA power were to keep their accounts in a way that would conform to the Federal Power Commission's system of accounts and to regulations that might be laid down by the TVA. At the present time they are one hundred sixty distributors of TVA power:

MR. KOHLER:
(Cont'd.)

110 municipalities and 50 cooperatives. They buy their power from the TVA and sell and service individual users. If its distributor is a city, then the users are the city itself and its inhabitants. In Memphis, for example, there is a power board. I worked with that board when its functions were under consideration. It's changed since then but at that time it had authority, not only over power, but over water and gas. Natural gas was plentiful in Memphis and electric power had to compete with it. I guess that is still true.

Do you live in Memphis?

DR. CRAWFORD: Yes, sir.

MR. KOHLER: Do you burn gas for fuel?

DR. CRAWFORD: Yes, sir.

MR. KOHLER: Gas and TVA power were and must still be rivals. Some electric-power installations could provide cheaper heat. Sometimes gas was being supplied at less cost. Both of course were saving in time and effort by consumers. In some instances, however, imperfect gas combustion was polluting the

MR. KOHLER: air with carbon monoxide.
(Cont'd.)

To prove the effectiveness of electricity as a heater of homes I built a six-room house in Knoxville in 1940 just before the war. I had certain innovations of my own I wanted to put in. One was to build a house of two stories on a concrete slab, but otherwise conventional in design, with a Southern-colonial front. Each room in that house is heated by thermostatically controlled electricity. Air filters ran the year round. During the first year the heating operation cost only fifty dollars. TVA was offering cheap rates for heating--as low as four mills per kwh. Others were experimenting by putting electric heating into old homes. The house I built was completely insulated, using all the devices that were then regarded as the best for the roof, walls, and floors.

But going back to the cooperatives and the municipalities. Each year we published a report of their operations--a practice still followed.

THIS IS INTERVIEW NUMBER TWO WITH MR. ERIC L. KOHLER, FEBRUARY 18, 1971 AT CHICAGO, ILLINOIS, BY DR. CHARLES W. CRAWFORD.

MR. KOHLER: I am turning to the document that I referred to this morning. It is testimony that I presented to the Senate Public Works Committee in 1947, which was done at the request of the Federal Power Commission. The document goes into detail on possible allocations of common construction costs among the three principal purposes of the TVA. That forty-one page document and our four exhibits I am also turning over to you with the request that you have them duplicated and sent back to me. Some day I hope I can expand on this and write a paper--after all these years--which will explain the allocation maybe in terms of some events that have taken place since then and develop the importance of the allocation in modern times.

DR. CRAWFORD: That would be very useful.

MR. KOHLER: It would be in terms of conditions that exist today.

DR. CRAWFORD: Do you want to make some comments about this letter to Representative Folsom?

MR. KOHLER: Yes. That letter was written to Representative Folsom after he had made a speech in the House of Representatives. He was a Representative from California. And since he was an accountant it seemed to me that he had accepted without question a report of the Edison Electric Institute as gospel, whereas I am sure the Institute meant it only as anti-TVA propaganda. His reply was that he had obtained the information from the Library of Congress and that he would ask them to supply him with its sources. I never heard from him again.

In 1948 I was asked by Dave Lilienthal to help him prepare testimony before another committee of the Congress. He wanted something in the way of a graphic documentation of the financial history of the TVA that could be presented to the committee. This was 7 years after my departure from the TVA. Accordingly, from the latest reports of the TVA in its Washington office I prepared an exhibit I will give you which you can keep. It was typed in sections because of the multiplicity of vertical

MR. KOHLER: columns, pieced together, and photographed--all
(Cont'd.) in the course of a stretch of ten hours.

DR. CRAWFORD: Why did you need this so quickly?

MR. KOHLER: Because Lilienthal was giving testimony concerning TVA finances the following day and he wanted something in graphics that he could present in summary fashion. Two photographic copies were made, one reduced to the eight-and-a-half-by-eleven size that I am giving you. The other was blown up to about four by six feet and backed by cardboard. This he presented to the committee. He reported that the committee was both astonished and silenced. He said afterward that they never asked him any questions about it after he had presented the details. They accepted it as factual and, I hope, truthful.

In connection with the system of accounting that I devised with the help of my staff back in 1938, there are certain things I want to mention here. It became necessary to determine a method of depreciation of the TVA's limited-life assets. Up to that time the TVA had acquired three principal

MR. KOHLER:
(Cont'd.)

classes of what accountants call fixed assets: land which required no depreciation and in customary financial practice is permanently capitalized at its cost; second, major construction--the dams which had a life estimated by the engineers as comparable to the experience over the centuries to that of the dams on the Nile River, which were still in use after two thousand years. Consequently the depreciation based on anything like a two-thousand-year spread would be very minor. On the other hand, in consulting with the TVA board of directors, we put into effect a "policy" rate of depreciation of one percent a year. We called it "policy" depreciation because it represented a practical potential of what could reasonably be assessed against users of TVA power. Perhaps after 100 years competing sources of power would be available.

The third class of assets were physically limited-life assets such as the turbines and generating equipment installed in each dam, the power lines, and substations essential to power distribution. For these determined rates of straight-line depreciation based on experience that had been accumulated in foreign countries as well

MR. KOHLER:
(Cont'd.)

as in this continent. In Germany, for example, a detailed study had been made of the useful life of different kinds of poles that are used for stringing wires, both on untreated wooden poles and on creosoted poles. All wooden poles that had been put up by the TVA were creosoted to resist parasites and ground chemicals and other influences of one kind or another. However, in one section of the TVA valley it was found that creosoted poles were subject to a very limited life because of a plethora of woodpeckers who were digging holes in them for nests. In some cases the life of these poles was no more than three or four years.

We had numerous problems of that sort to consider. Local situations demanded different rates other than the standard ones, but in all cases a strictly straight-line basis of depreciation was the method employed. Straight-line depreciation is simply this: original cost of the asset is spread prorata over its estimated life; that is, the original cost less any salvage value anticipated at the end of its life.

However, there were so many factors involving

MR. KOHLER:
(Cont'd.)

useful life of the many types of equipment that had been purchased for which there had been no established experience that it seemed desirable to set up a depreciation committee. So I established such a committee and appointed as chairman an engineer who was on my staff--an electrical engineer in charge of our property accounts. Another member was chosen from the power-operating staff; another was an economist; another represented the general manager, and another a lawyer. That committee met once a month and would review the rates of depreciation that were being applied to the assets which would yield a depreciation-expense figure for each month. At its monthly meeting rates would be reconsidered in the light of new experiences. If a change in the rate appeared necessary that change would be applied, not to affect the accumulation that had been built up, but to all future provisions so that in the end the cost would be realized through charges to expense.

DR. CRAWFORD:

When did you establish that committee?

MR. KOHLER:

That committee was established about August, 1938, and it's still operating under different

MR. KOHLER:
(Cont'd.)

personnel now, I presume, after 34 years. When I was in Knoxville recently, I found that none of the department heads are the same and none of the committees are the same. The general manager and his assistant have all changed since I was there.

DR. CRAWFORD:

However, many of the people there now were present at the time of organization.

MR. KOHLER:

Yes, but none with whom I dealt directly except the present comptroller.

The unique method of determining the cost of equipment depreciation that was this committee's responsibility concerned the production of power and other services. It was unique in the sense that it was a continuously functioning committee and was responsible for making any changes in the rates that they thought necessary. Consequently, the rates that are being used are not necessarily standard rates. They are rates tailored to the needs and conditions of the TVA.

In most large private corporations, standard rates are used. They are often not tailored to the

MR. KOHLER:
(Cont'd.)

organization. It's a curious thing that this is true of some of our biggest corporations. I've made inquiries from time to time concerning depreciation practices, and talked with comptrollers. They think that was a novel thing the TVA did--to establish a depreciation committee. Over the years the committee has become well acquainted with the equipment and many of the rates that have been established have been used by other organizations, because a study had been made by the TVA that surpassed anything that they have devoted their time to. Usually, depreciation isn't given much attention. Too often, they take what the comptroller gives them. In our case, it seemed to me that we ought to have rates of depreciation that everybody would approve--engineers, lawyers, general managers, board of directors, everyone. Furthermore, they ought to know what those rates were and for each rate there should be personal or small-group responsibility.

DR. CRAWFORD:

Was that an unusual development at that time?

MR. KOHLER:

That was unusual at the time.

MR. KOHLER:
(Cont'd.)

The committee members delighted with the kind of work they were doing. They issued brief reports from time to time. I have none of them here. But I'm satisfied that the rates that are still being followed are rates that will stand up to anybody's test, such as tests that could be applied by the Federal Power Commission, because we established data there that private power companies do not have. As a matter of fact, private power companies sent representatives to the TVA to find out what depreciation TVA was taking, ignoring the fact that we were making detailed studies of the life of equipment. For example, wooden power poles and steel power poles all have limited lives. Depending on where they are installed and the rapidity with which they are replaced, these data provide statistics useful to private business, and they have been furnished private business whenever they were called for. Many people from foreign countries visit the TVA. While I was in Knoxville, there were several delegations which had heard of our depreciation studies. They hoped to find out what we had gained in the way of information that they could apply to their own situations.

DR. CRAWFORD: What sort of organizations were represented in visits to you?

MR. KOHLER: Mostly public power companies. One English representative I remember particularly because I've had contact with him since. I renew my contacts with him when I go abroad. Power companies are mostly government owned in Europe.

DR. CRAWFORD: Had you based depreciation rates on representations of manufacturers of equipment?

MR. KOHLER: TVA had started out that way, but we changed within months as our experience grew. Some of that equipment required outlays of as much as two or three million dollars a unit. A unit installation consisting of a mass of mechanical parts had to be installed all at once. Depreciation had to be based on experience with parts replacements. Units as big as these hadn't been manufactured before.

I think that probably covers the idea of depreciation. Rates have been applied and depreciation recorded on a composite basis. At the present time, the TVA is accruing about six million a month in

MR. KOHLER:
(Cont'd.)

depreciation on its equipment. Total depreciation is shown in one lump sum figure on the financial statement. Today, TVA's financial statements, prepared monthly, are exactly of the same form I used back in 1938--the balance sheet and operating statements.

DR. CRAWFORD:

Have you been receiving this since you left TVA?

MR. KOHLER:

Every month.

DR. CRAWFORD:

TVA form 3940FD343. And this is done monthly?

MR. KOHLER:

Yes. And it's prepared usually during the first ten days of each month, after the previous month's closing. In other words, this January statement, which you have in front of you dated January 31, appeared about the middle of February. And as soon as they appear I am sent copies. I don't correspond with them or comment on these statements because I've always avoided interfering.

DR. CRAWFORD:

But it has followed the same plan you outlined when you were there.

MR. KOHLER: Exactly the same plan; even the various captions are unchanged.

DR. CRAWFORD: May we get back to a few of the details that you mentioned about your allocation of common costs. Can you explain some of them for people in general how you did that?

MR. KOHLER: We had a number of possibilities before us that had been proposed by people of different theories and experiences. The U. S. Corps of Engineers was greatly interested in that study, but had made no attempt to contribute to it; we hoped it would, because of its experiences in constructing and financing multipurpose projects. But the Corps contented itself by watching what we were doing because it was believed we would probably set a precedent in that respect which could be both quoted and followed.

The Federal Power Commission was also interested because it had that problem to deal with in the case of private power companies possessing other utilities along with the power utility. There were quite a number of them scattered around the country

MR. KOHLER:
(Cont'd.)

blessed with common costs. If nothing else, they had shared administrative costs in their overhead, such as top administrative officials.

Various theories had been proposed, many of them mathematical theories of one kind or another, marginal-cost theories, direction-of-effort proposals, and several others. But I found, by comparing the different methods, that everybody wanted to allocate something less than fifty percent to power because the Congress, in the 1933 TVA Act itself had given priority to navigation and flood control. Power was supposed to be incidental and power production had been included as a conservation of energy.

Control over navigation meant maintaining a nine-foot channel between Knoxville and the Ohio River. The Tennessee flows into the Ohio River near the Mississippi along with the Cumberland River. Navigation channels had been urged for many years and to some extent had been realized because low draft equipment had been used. However, no boats of any size had been able to get as far as Knoxville.

As for flood control, which had harassed the

MR. KOHLER:
(Cont'd.)

Tennessee valley for years: it was felt that a major effort should be put forth, because all along the Tennessee River there was a substantial amount of housing on its borders, not only in Knoxville, but all down the river and up through Kentucky. Invariably, a certain type of humanity settled on the river's edge where they could fish and live cheaply; they lived mostly in substandard housing and faced the problem of floods every year which would invariably wash some of their possessions away. The city or the county or the state would have to make good their losses and take care of persons made homeless.

Flooding had thus been a perennial, plaguing problem and it seemed that no city or district in Tennessee could get rid of it. So one of the TVA objectives had been to maintain a more-or-less constant level on the river. That had to be done if floods were to be prevented. Over the years TVA dams have now achieved a nearly constant level by impounding flood waters at their sources. Impounding water begins in the early spring when the snow is melting off the hills and when the April rains come. Instead of running down the river the water

MR. KOHLER:
(Cont'd.)

is collected in the big lakes behind the dams. In theory, a series of high dams could impound all the water flowing into the Mississippi. In doing that, however, the mass of impounded water would lead to wasted energy if it were allowed to remain behind the dams and during drought periods to uncork the dams and let just enough water flow down. So it was logical from the standpoint of the Congress to create a power facility as a necessary incident to the flood control.

DR. CRAWFORD: Power was the byproduct?

MR. KOHLER: Power was the byproduct but there were many especially the private-power interests, who took the position that power wasn't a byproduct, but was the one and only major product. They were not unacquainted with the living conditions in the Tennessee valley; to them human interests were secondary. Today such an attitude could not be maintained.

DR. CRAWFORD: These conditions existed before power was made available?

MR. KOHLER: Yes. The poverty and human welfare of people

MR. KOHLER:
(Cont'd.)

were prime concerns of those who framed the TVA Act.

When I first came to the Authority, Harcourt Morgan, the Board chairman, took me in hand. He said, "You're going to get into the costs of the different things we are doing here." And he said, "I want to show you something that the TVA has to be interested in, if it is to operate for the good of all the people." So every Sunday morning he drove me in his car out in the hill country. We went through rural communities. Every Sunday it would be something different, and I could see a common pattern in what he was doing. He knew people all over that area by their first names.

A typical trip that we would take was to go alongside some river tributary to the Tennessee. We would drive up to its source where it would be nothing more than a creek and the road would end; we'd then drive up the creek bed. Of course, it wouldn't be at flood level, but just a trickle and finally an arroyo as they would call it in the Southwest. We'd drive up the creek bed and soon we'd come to some habitation. They weren't villages. They were, perhaps, a collection of two or three

MR. KOHLER:
(Cont'd.)

homes and invariably the pattern was the same no matter what direction we took. I would say that for a space of one hundred miles around Knoxville this pattern was prevalent. You'd happen on these isolated homes. People there were deprived of neighbors. They would have a little private, very rigorous way of living; they were usually poor, and the families were large.

Almost invariably, and without any announcement on our part, we would find the family on the front porch on Sunday morning all dressed up in their best, sitting there, kids, dad, and mom, not expecting anyone. They were just sitting there because it was the custom to do that on Sunday. When they saw Harcourt Morgan approaching they were all delighted. They all came down and shook hands with him. He was their best friend. He would introduce me to them and we would stay and talk with them for a while. They were mountain people, descendents of the Anglo-Saxons who had come from England centuries ago, and many inherited English traits. Perhaps there would be a banjo or guitar. We would be treated to a little concert on those front steps. We'd sit there and take it all in. Then

MR. KOHLER:
(Cont'd.)

the grandmother would sing an old ballad handed down from her great-grandfather. We heard a lot of wonderful English ballads on those trips.

The main objective of these trips was to show how far removed these people were from modern living. They had nothing much in the way of equipment in their homes; wood fires and sometimes they had no glass in the windows; they'd have boards or maybe cloth for a door. His idea was that cheap power should be extended to these people. Many farmers had followed the practice of cultivating one acre of land--remove the trees and bushes--and maybe grow corn there. After two or three years the soil would be depleted, and they would move on to another big square. Maybe they didn't even own the land but they'd move in anyway and then do the same thing all over again. They didn't know how to use fertilizer although in the pre-TVA days at Wilson dam, the Government's fertilizer business had already been started, as early as 1924. But Harcourt Morgan thought that the TVA should be geared up to spend its resources so that these people could enjoy at least some of the benefits of civilization as other people knew it: not take them out of their

MR. KOHLER: environment but improve it.
(Cont'd.)

DR. CRAWFORD: And bring the power to them?

MR. KOHLER: Yes, and bring other services to them as well such as fertilizer and instructions as to how to plant and harvest. I, for example, made some experiments of my own with hybrid-seed sweet corn. I planted the corn in an acre of land loaned to me by a farmer near where I lived. I succeeded in raising and harvesting bushels of edible sweet corn free from corn borers and rusts on that one acre. The farmer did the plowing for me and helped with the harvesting. I did the planting and cultivating. I'd never had any experience of that kind before in my life. But I wanted to see if such things could be done by an amateur. The County Agent representing the U. S. Department of Agriculture said, "You can't grow corn here. It isn't done. They gave that up years ago." But I said, "I'm going to try anyway. It won't cost much." I staggered the planting over four weeks and after the first specified 88 days I sent that fellow a bushel of corn, fine eating corn. He couldn't believe his eyes. He said I must have imported it from up north. I had to take him out

MR. KOHLER:
(Cont'd.)

and show him what I had done. That was the first time in Knox county hybrid sweet corn had been raised. Things like that were the kind of things many of us in the TVA were interested in doing, trying to see if the labels "can't be done" or "isn't done" could be changed to "can be done" for the benefit of the underprivileged farmers in that area.

The people you'd meet out in these isolated districts were wonderful people. They'd talk to you freely. They weren't educated, but that didn't make any difference. They knew a lot of curious things. They had radios, little battery radios. They would listen to reports on the war in Europe. They knew a war was going on somewhere but they didn't know exactly where this was. One man asked me, "How far away is England? Is it more than a hundred miles?" That's the kind of thing one encountered. That's the kind of thing that Harcourt Morgan was trying not to eliminate completely, but to dramatize the need for the conditions of people to be bettered: the necessity for people that knew better to help other people to do better.

DR. CRAWFORD: I know that Harcourt Morgan often seemed indirect in what he did, but he was very purposeful in it too. What did this accomplish for you? What did you learn? Did you change any views? Did you make any decisions as a result of these trips with him?

MR. KOHLER: Oh, yes, absolutely. Some of our activities could be redefined in terms of what those objectives were on his part. Actually, these experiences were being fed back into the TVA. He wanted me to see how necessary many of these little projects were that we called activities. I didn't question them at all. I thought it was up to the board to question if anyone was going to do it, but what I was going to do was to define and clarify them, make them show that they had an administratively approved purpose and direction. Then the board could decide whether that purpose was to be continued, expanded, transferred, or dropped. Harcourt Morgan was demonstrating how necessary some of those projects were. He also demonstrated that maybe some other projects of the same type and objectives ought to be injected into the picture because they were needed. The provisions of the TVA Act itself were very broad.

MR. KOHLER:
(Cont'd.)

The welfare of the people was really the primary consideration by whatever means available.

DR. CRAWFORD:

The TVA Act was written very broadly, of course, amendments have tied it down a little more specifically.

MR. KOHLER:

Well, they haven't hamstrung efforts to improve the public welfare. In other words, where something should be done for people, it is pretty hard for the Congress to take an opposing attitude. In fact, it's just as hard getting anything like that written into the law itself in the way of specifics. Senator Norris for years had been intimately acquainted with conditions in the Tennessee valley and had great affection for its people. He knew what their living conditions were like. He was responsible for the permissive language of the act.

DR. CRAWFORD:

It seems to me, one of the really important things you did from a managerial viewpoint was instituting this idea of getting all the Authority's actions defined. Can you tell me when that idea--a definition of activities--developed? How it started and who was working with it?

MR. KOHLER: You mean within the TVA?

DR. CRAWFORD: Yes, sir.

MR. KOHLER: Right from the beginning, I believe I was the only one to take this position to start with. It seemed to me that TVA's accounting could be linked up with activities in such a way that the definition of each activity would serve two purposes. The first would be the functional purpose: what's the activity for, and what does it hope to accomplish, that is, purely in nonfinancial terms. What is the good that it might do? What is the research required that would be in harmony with the broad purposes of the act? The second was to make it possible to assemble the costs accordingly, to make it known what the cost of doing this or that might be. Always, in setting up and operating an activity, we attempted to provide a standard of comparison. A standard of comparison is something that administrative people too often overlook. Philosophically, it's a very common thing. For example, I take a financial statement and I compare it with one of AT&T. There are things in common there. You have such things as working capital. By and large, experience

MR. KOHLER:
(Cont'd.)

has shown that American manufacturing businesses require a two-and-a-half-to-one ratio between current assets and current liabilities in order to operate satisfactorily. It's a very curious thing, but that's a standard that has persisted over many decades. The Federal Trade Commission has developed statistics, not only for power businesses, but for all sorts of businesses. Like other accountants, I had built up statistics of this sort by myself: rules of thumb you might say. One time I took some of my compilations to a fellow in the Federal Trade Commission that deals with such basic matters. He was amazed. He didn't know his efforts were serving that particular purpose. But to me, the FTC provides standards of comparison with which you can be helpful in rating a particular business.

Let's say that you have a manufacturing enterprise here in Chicago which has maintained a ratio of two to one, not two and a half to one. What are conditions that justify that? That's a lesser ratio, of course, and it could mean that the business might be a little harder pressed financially than one that had maintained a larger ratio. However, there would be circumstances that

MR. KOHLER:
(Cont'd.)

you would look for. In other words, the standard of comparison would lead you to inquire into why that difference existed and whether it might be temporary or permanent; if the latter, was it adequate?

Recently I was asked by a vice-president of the First National Bank here to take a look at a statement that he had of a business organization where the ratio was one to one, the current assets being about the same as the current liabilities. He said, "We've been asked to finance this outfit and they have always had bank obligations outstanding among their current liabilities, and we'd like to see those notes cleared up at least once a year." That's a standard practice for many banks. I said, "You'll never do it with the kind of operation that this outfit's carrying on. For the last five years, you've had loans there right along. And all they do is renew those loans. You're doing their financing to the extent of those loans because they have become more or less permanent." Well, he wanted to have some financing on the part of that company, a long-term financing to take the place of those current loans. And that's eventually what transpired.

MR. KOHLER:
(Cont'd.)

That's the kind of thing that develops from having a standard of comparison.

When we recognized and described these individual TVA activities, we always tried to have a standard of comparison. If we couldn't find one, we asked the activity head to find one for us. In other words, what justifies his rate of expenditure, the employment of his people, and the end products they develop? What justified spending that much money? It might turn out that it was half as much money as should be spent. We didn't put any tight specification of our own on the thing. We just wanted the activity head to see if he had any standard of comparison for his guidance--whatever the form it might take. In some cases, no standard of comparison emerged. The activity had grown up like Topsy and had just taken on things as they came. Most, however, would have standards of comparison, often unconscious ones. If someone said: "Private power companies for customer education spend twice as much as we do" I would respond: "Well, let's prove that." There was an activity called customer education in the TVA. Actually we found the reverse to be true: the TVA was spending twice as much as private-power companies

MR. KOHLER: for comparable consumer education.
(Cont'd.)

DR. CRAWFORD: No one had looked into that before?

MR. KOHLER: No. Everyone was imagining that an economical program was in operation. On the other hand, that larger amount might have been justified. It wasn't up to me to determine if it was justified or not, but to put the salient facts before the Board--for its judgment.

So we tried to institute standards of comparison and to get a unit cost of work performed: We used these standards in connection with TVA-distributors' performance. And if you'll look at the last financial report of TVA distributors, you'll see that you can draw comparisons all down the line. There were one hundred sixty of them at last count--a hundred cooperatives and 60-odd municipal units. You can take an average which is given to you by the total for the whole group. Then apply the average amounts or average percentages to the individual outfit. It might be that the monthly bookkeeping cost is a dollar for each ten customers. I'm just guessing what the standard might be. That's

MR. KOHLER:
(Cont'd.)

an easy standard to determine. Let's say that the standard holds for outfit number one. Then go to outfit number two which is about the same size, same number of customers. The cost is two dollars per month. What's the reason?

We put the burden of comparison on the manager of the distributor who is always an electrical engineer. The books of all the distributors have to be audited once a year by certified public accountants. We required annual audits of all distributors and they've always complied.

The secretary of the Tennessee Society of Certified Public Accountants, located in Memphis, got hold of me one day by phone in my second year. He said, "You've been going around trying to tell some of our members how to make an audit of a power distributor." And I said, "Yes." I didn't know whether he was going to blast me or not. He said, "I think that's a wonderful idea. We don't know all the requirements of such audits. Would you like us to have a state-wide meeting of accountants so you could talk to them and tell them some of the same things you've told individual accountants?"

MR. KOHLER:
(Cont'd.)

The Tennessee Society of CPA's was most cooperative. A formal meeting at Nashville was arranged to which all members of the society were invited. I presented each member with a copy of an accounting manual we had prepared in which we included not only the accounting records we would like to have each distributor keep, but the monthly reports we desired. Also included was a statement of accounting policies--twenty-five of them--each specifying some special adaptation of commercial accounting practices to the needs of TVA distributors. I outlined for them the span of activities--not in the manual--that I thought their annual audits might well include. The public accountant is a free agent and doesn't want to be told what he must do. But there was no resentment when I got down to the details of their procedures. Instead, I found I was getting the same response from them as I would expect from a seminar of graduate students. From that point on, more or less uniform annual audits were made by CPA's and the practice continues today--after 33 years.

Two things were accomplished. First of all I established an audit procedure of a very general type indicating the points to be covered that would

MR. KOHLER:
(Cont'd.)

be of particular interest to the TVA as well as the local power boards. The TVA is required under the TVA Act to see that uniform accounts are kept by the distributors. Senator Norris saw to that. He wanted a very loose surveillance, but nothing that would suggest ownership. In addition, I established a small service group--three or four accountants--who were available upon call from any of the municipalities or cooperatives. Their function was to help out, instruct bookkeepers, review reports with managers; and most important of all, make managers aware that standards of comparison were available for his guidance.

THIS IS MEMPHIS STATE UNIVERSITY ORAL HISTORY RESEARCH OFFICE PROJECT,
AN ORAL HISTORY OF THE TENNESSEE VALLEY AUTHORITY. THE DATE IS
FEBRUARY 19, 1971, IN CHICAGO, ILLINOIS. THE INTERVIEW IS WITH
MR. ERIC L. KOHLER, FORMERLY WITH THE TENNESSEE VALLEY AUTHORITY. THIS
IS INTERVIEW NUMBER THREE WITH MR. KOHLER. THE FIRST TWO INTERVIEWS
HAVING BEEN CONDUCTED YESTERDAY. THE INTERVIEW IS BY DR. CHARLES W.
CRAWFORD. THE RECORDING SPEED IS 1-7/8 INCHES PER SECOND.

DR. CRAWFORD: Mr. Kohler, I would suggest we start this
interview by getting a little information about
your professional standing as an accountant at the
time you went to TVA in 1938. Could you sum up
something of the writings that you have done in
accounting in terms of journals and books which we
didn't mention yesterday, though I know you have a
great deal of writing.

MR. KOHLER: In the 1920's I was co-author in two books:
one on principles of accounting (with Paul Morrison),
another on principles of auditing (with Paul
Pettengill). These two books were current, widely
used textbooks at the time throughout the country;
there were only a few other textbooks of the same
nature in existence during the '20's. These two

MR. KOHLER:
(Cont'd.)

books are now completely out of print as well as out of date, although a few revisions were made during the '20's. In the middle '30's they succumbed to other textbooks that were more modern, probably better.

Then in the last few years of the '20's I published four editions of a book on the relations of the federal income tax to accounting, intended as a practitioner's text. It was also quite widely used in university courses dealing in income taxation and was referred to also by public-accounting organizations, who bought the text and used the quotations and opinions I expressed in there in handling cases. That venture ceased about 1930; and because of the constant change in income-tax laws it was outdated in 1931 or '32 and I've never revived it because I had too many other things I wanted to do.

In 1930 and '31 I was a member of a committee on the definition of earned surplus for the American Institute of Accountants. Arthur Andersen was the chairman. The committee was the outgrowth of a talk that Arthur Andersen had given before an international Congress on Accounting in which he

MR. KOHLER:
(Cont'd.)

asserted that it was about time that the profession got busy and defined a few of its terms such as "earned surplus" which had accumulated a variety of usages and interpretations at that time. The Committee's report was issued in 1931. I drafted the report as secretary of the committee and it was signed by Arthur Andersen and the other members of the committee and submitted to the Council of the Institute. It was promptly rejected. The Council at that time said that it would restrain the freedom of action by accountants, who should be free to call earned surplus whatever they wanted to call it; it had no exact definition. Therefore, when we tried to limit the definition to something concrete they felt bound to reject it.

That action roused the anger of Bob Montgomery, whom I mentioned yesterday. He got the idea of definition started again. And he was powerful enough to have himself appointed chairman of a committee on terminology and to put me on the committee. Again I acted as secretary of the committee. And in 1934 we put out a mimeograph report on the definitions of about six hundred terms that were common at that time. We issued two hundred numbered

MR. KOHLER:
(Cont'd.

copies which now sell for fifty to a hundred dollars apiece because at the time they quickly disappeared from circulation and can be found now mostly in libraries of public-accounting organizations and universities. For example, I found one buried deep in the library at the University of Illinois in Urbana. No one knew it was there and it hadn't been indexed. The report was provisional in character--suggestive. Again that was turned over to the Council of the American Institute. Again it was rejected for the same reason: that many of these terms would constrict action. Consequently it would have the tendency of destroying the freedom of the professional accountant.

Montgomery almost resigned from the Institute as a result of it. He was a powerful figure. The Council's decision created some disturbance. Shortly thereafter, Montgomery made me a member of The American Arbitration Association in New York which he had helped to establish, and I became a practicing member of that organization for a few years--on a part-time basis, of course.

But Montgomery kept after me and said that in

MR.KOHLER:
(Cont'd.)

view of the fact the Institute had so firmly turned down the notion of defining accounting terms, I should undertake the job on my own. He said that he would give me every help he could. So I went ahead, rather brashly, as I view it now.

In the meantime I had quite a few other things on the string and that business of accumulating definitions was spread over a total of fifteen years before the first edition was published by Prentice Hall. Montgomery, of course, gave it his blessing. And it has been more or less standard ever since. This is the fourth edition you have in your hand. That came out last year. And I have about fifty more definitions at this moment that should be added to that book. I keep accumulating them. Accountants have been getting into new areas of activity all the time and using new terms which as a rule are very badly defined by their creators, and which need rigorous definitions if they are to mean anything--if they are to have general acceptance by the profession. This book of definitions has been distributed quite widely both here and in Europe and I find that European accountants refer to it although it has never been translated into any European

MR. KOHLER:
(Cont'd.)

It is even used in Madrid and some of the South American countries where my book on auditing has been translated into Spanish. I can't tell you with what success that book has met down there or in Madrid. But the book was republished in English in Tehran by the University of Tehran. And the professor of accounting in Tehran added a lengthy review at the rear of the book. My introduction remained in the front because the whole book was reproduced in its original form as published here. A few months ago the Dictionary was translated and published in Tokyo.

Have you any questions regarding that dictionary, by the way?

DR. CRAWFORD:

Well, I would like to try summing this up a little, Mr. Kohler. In regard to your professional standing as an accountant, if someone were to charge today that you were one of the best-known accountants in the United States could you truthfully deny it?

MR. KOHLER:

The only way I could answer such a question is to say that I think you will find in public-accounting

MR. KOHLER: offices that when my name is mentioned they know
(Cont'd.) who is being referred to. Whenever I am at accounting
 meetings I am always approached by people I have
 never met before who want to talk about the Dictionary.

DR. CRAWFORD: I am sure many of them have your book.

MR. KOHLER: Yes. They also have this other book that
 came out a few years ago on accounting for management
 that I told you about yesterday--a small book which
 they have used in various ways. Some have given
 copies to their staffs--an incoming group for
 example--perhaps as a review of what they have
 learned in school, but it also has been given to
 corporate executives who need to know something
 about the meaning of accounting and accounting
 reports, and who have intelligence enough to follow
 the text--the type of person this book was intended
 to appeal to. Another book on auditing, the one
 which came out during the '50's, went through three
 or four editions and is still being used to a limited
 extent as a textbook. In that book I attempted to
 establish a new coverage for the word auditing. It
 expanded the definition of the term to include manage-
 ment reviews and reviews of procedural practices.

MR. KOHLER:
(Cont'd.)

Up to that time the auditing texts were limited to two in number: one written by an Englishman and the other by Bob Montgomery whose associates had much to do with its preparation. It was a very voluminous book consisting of nearly 800 pages, something you couldn't tote around. My idea was to get something simpler, limited to principles, but essentially there was nothing in conflict there with Montgomery's doctrines.

DR. CRAWFORD:

I understand that your professional standing has to be taken into account when people consider your observations of TVA and your view of how the organization developed. I thought that important to have on the record. If you are ready I would like to get into some questions at this point.

I will start in with your work with TVA. We need to get some information, I believe, about the bookkeeping in the cooperatives to which TVA sold power. I am sure you had a problem there in that they were scattered throughout the valley and you had people of different backgrounds and abilities working in them.

MR. KOHLER:

One thing common to all of these enterprises that were buying power from the TVA, and something that has been enforced by the TVA power management, was that each organization would have to have an electrical engineer as chief to organize and operate power distribution within a designated area--power taken at a station that the TVA had provided in the area. At that particular point the power lines within the area were constructed by this independent agency. The law provided for the sale of TVA power to these municipalities and cooperatives. In general, the cooperatives covered country districts and the municipals the larger concentrated areas--which presented somewhat different problems of distribution.

In the country districts there was always the question of extending lines to isolated areas--a problem of cost outlay which often gave everybody headaches, including officials in the TVA.

Yes, that is the one thing that those distributors always started out with: electrical engineers. Consequently, instituting a scheme of accounts was something these people always warmly supported; they knew they couldn't operate without

MR. KOHLER:
(Cont'd.)

supporting accounts. We instituted a uniform classification of accounts, as I have said. That was done about August, 1938. And I drew up a statement of principles that should be followed in connection with the operations of those accounts: twenty-five such principles. And to make sure that they were understood by each top official--we asked each operating manager to review these principles and to discuss them with myself or with one of my assistants.

So when starting out, distributors had something in the way of tested principles. In the average case a local bookkeeper was employed, as we recommended. And usually they were able to pick up even a part-time bookkeeper--which was all that was required in the smaller cooperatives--who would follow these principles.

At the same time I established a small group of assistants for the cooperatives and municipalities. The group included several certified public accountants who had had some power experience. One, for example, had been a manager for Arthur Andersen and Company whom I persuaded to come down there and take charge

MR. KOHLER:
(Cont'd.)

of this group. The function of that group of assistants was to help in the bookkeeping and management operations when requested. They would go to the locations of the main offices when requested, review operating procedures, and answer questions. Nothing was compulsory. As I have already said, I was very careful to make sure this staff was indoctrinated in a way that would indicate that they were in no case to assume operating responsibilities.

I also attended annual or special meetings of cooperatives. I gave talks indicating how they should supervise their general manager, how they should watch the operations that went on, and how to read the financial statements which were being prepared each month and given whatever general circulation that the local groups wanted to give them. I would suggest that they should compare their financial statement with other similar financial statements and make sure they were getting their money's worth. I discussed with them the cost of keeping, for example, accounts receivable. Always, of course, in any operation of that kind of public utility, billings go out every month or every other month and the billings go to the users: homeowners, or cities

MR. KOHLER:
(Cont'd.)

using power for street lighting or private companies and other organizations who use power for heating, lighting and so on. These billings under standard practice must be paid within a specified time. The turnover of the accounts receivable was something that seemed to be not too important to most people. On the other hand I urged that prompt collections were of extreme importance. Someone should be watching them at all times because it is easy to start an operation in a small isolated community where prompt settlements of obligations are a rarity. I had found that certain politicians in one large city, for example, were used to receiving services, even their groceries, free of charge. They had to pay their power accounts or their power would be cut off. The proprietor of one prominent newspaper was one of these. I took the matter of prompt payment up personally to him.

DR. CRAWFORD:

But distributors had to secure payments to keep in operation?

MR. KOHLER:

Yes, distributors had to settle for their power purchased from the TVA each month. There is a wide margin there, by the way, for them to work in.

MR. KOHLER:
(Cont'd.)

They paid a fraction of a cent per kilowatt hour for the power but they would be selling it for three or four times that amount. In words they might be buying power at 2-1/2 mills per kwh and selling it for a cent. A graduated scale was worked out and a number of possible methods could be adopted locally to determine what these bills were to be. The local board would have to pass on rates and make sure that the accounts were being collected regularly, for the TVA had to be paid promptly if the power supply was to continue.

During the time I was with the TVA (and I believe ever since) no power was ever cut off to a distributor; bills were settled promptly. In a few cases they had to go to a local bank and borrow money to do it, which I recall was done where the idea of prompt payments by consumers hadn't taken hold.

DR. CRAWFORD:

Did they have collection problems in the cooperatives?

MR. KOHLER:

Yes. They had some collection problems but offered a discount for prompt payment just as they do now in all power companies. For example, here

MR. KOHLER:
(Cont'd.)

in Chicago you get a discount of about three or four percent if you pay promptly. But the discount is canceled if you miss paying your bill within say about twenty days from the date of the bill. In most states such discounts must be approved by utility commissions and in the case of power bills, also approved by the Federal Power Commission. Power can't be inventoried like store merchandise and 30-day settlements must therefore bring penalties. Power you buy is supplied to the distributor the same moment you use the power. So it has to be paid for within a very brief settlement period.

I don't think collections ever became a serious problem with TVA distributors except in one or two minor cases.

DR. CRAWFORD:

What about the managers of the cooperatives? They were always electrical engineers, I believe.

MR. KOHLER:

Yes. I think there were only one or two exceptions. They were always people acquainted with the problems of power-supply operations. I met a good many of them. In fact there were annual meetings of these people which I attended; and

MR. KOHLER:
(Cont'd.)

sometimes representatives of the coops and municipalities would call upon me in my office in Knoxville in order to invite me to their meetings. I would give a little talk and then try to answer their questions. My function was related to both management and accounting. That presented a very interesting situation: a good example of where you can't separate these two functions. If you have good accounting you have good management. If you have good management you have good accounting. They go together.

There were always question-and-answer periods. And I would always, when I went to these meetings, have an electrical engineer with me. In fact, usually the chief engineer of the TVA went with me because he and I were linked together in a great many different projects: Theodore Parker.

So we initiated, right from the start, operating procedures that were not by any means rigid but limited to suggestions under which they were perfectly free to operate. There were various alternatives that they could follow within the principles we laid down. But even then they

MR. KOHLER:
(Cont'd.)

weren't required to follow these principles. We had no way of imposing that upon them. We would tell them that. But all without exception subscribed to them.

DR. CRAWFORD:

What function did TVA fill in the continuation of these cooperatives? Were there any of them or many of them that failed without your guidance in bookkeeping, management, and so forth?

MR. KOHLER:

I don't think any of them would have succeeded without some guidance but there were no failures. Some of them had operating losses for a period of a few years. But as a rule, because they all adopted straight-line depreciation, provisions therefore were occasionally greater than operating losses including depreciation. For example, in the 1972 report of the West Kentucky Rural Coop. I observed an operating loss of \$16,000 after providing for depreciation of \$406,000: an ample margin to take care of interest and principal payments to the REA. That meant that on their equipment--drop lines, service boxes, meters depreciation provisions were recorded regardless of their effect on net income.

DR. CRAWFORD: They estimated that conservatively then, didn't they?

MR. KOHLER: Yes. All of the distributors have ultimately succeeded in producing a positive net income. I think that you will find in this latest report that only one other is reporting an operation loss due to some local condition. But you will also notice that in those one or two cases the operating loss is less than the provisions for depreciation. In other words if they didn't provide for depreciation they would show a profit, for the less the depreciation expense, the greater the profit. Depreciation is simply the amortization of an original cost, not a drain on the current cash position.

I have before me reports for the fiscal year ended June 30, 1971. TVA still sends me its monthly and annual financial statements and I have often had occasion to quote them. Because it is near the end of the next fiscal year I'd prefer to substitute later figures for these earlier ones, and I will send them to you when they become available. For example, the TVA, perhaps the world's largest producer of electric power, during the fiscal year

MR. KOHLER:
(Cont'd.)

ended June 30, 1972, sold 91 billion kwh of power which yielded gross revenues of \$623 million and a net of \$112 million, the latter after deducting interest of \$100 million, straight-line depreciation of \$83 million, the net result being a return of more than 10% on the balance of unrefunded Congressional funds appropriated since 1933. During the year it refunded \$56 million or nearly 6% of these funds to the U. S. Treasury.

Equally fascinating figures are published each year on the TVA distributors who for fiscal 1972 bought 58 billion kwh from the TVA at .72¢ and sold them to consumers for 1.24¢ per kwh. For the same fiscal year here are some summary results:

		<u>Municipalities</u>			<u>Cooper- atives</u>
		<u>Total</u>	<u>Large cities</u>	<u>Other</u>	
Millions of dollars	Number of TVA distributors	160	4	53	103
	Billions of kwh sold to consumers by distributors	54	20	21	13
	(Sales	673	237	252	184
	(Power purchased	415	150	157	108
	(Straight-line depreciation	47	16	15	16
	(Taxes or tax equivalents	30	12	14	4
	(Interest	11	4	3	4
	(Other expense	115	37	40	38
	(Net income	55	18	23	14
	Return on sales (%)	8	8	9	8
	Ratio to paid-in capital (%)	46	190	140	15

MR. KOHLER:
(Cont'd.)

Although the TVA and each of its 160 distributors are legally and financially independent, it is revealing to combine some of the 1972 figures in order that TVA (wholesale) plus distributor (retail) operations can be compared with integrated privately owned electric utilities. The sale to consumers, \$673 million, plus power sales by the TVA to industries and others of 35 billion kwh for \$207 million, or total sales of 691 billion kwh and \$880 million, yielded a combined net income of \$173 million, or 20% on sales and nearly 15% on paid-in capital of \$1,173 million.

There can be little question that the TVA remains Uncle Sam's most lucrative business venture.

DR. CRAWFORD:

Could you explain something about the relationship of TVA distributor accounting to government accounting in general, Mr. Kohler?

MR. KOHLER:

We instituted for the cooperatives something that would be in line with the regulations of the Federal Power Commission. And when our chart of accounts had been drawn up I took a trip to Washington to discuss this draft with its chief

MR. KOHLER:
(Cont'd.)

accountant, Charlie Smith. Smith and I had known each other for years. He is a CPA and at that time was very active in professional societies. We had the same opinions on almost everything affecting the cooperatives. For example, one thing we both have been advocating for years was straight-line depreciation. The Insulls and several other members of the old power industry favored some highflown theories of depreciation that resulted in the accumulation of only a fraction of the cost of purchased assets. In the end that was one of the causes of the Insull's troubles. The debacle to which he brought upon himself was entirely self-created. By understanding depreciation he overstated profits; he was thus able to pay himself dividends which were really returns of invested capital.

DR. CRAWFORD:

Do you know why Insull preferred such a complicated depreciation schedule?

MR. KOHLER:

Yes. Insull was a manipulator. I reviewed the report of the receiver's accountants, Arthur Andersen and Company, who had been called upon by the Court to audit the Insull holding corporation in 1930. That was after Insull had skipped the country, had donned women's clothing

MR. KOHLER:
(Cont'd.)

and had fled to Greece. The Andersen firm had examined the records of Insull's pyramided corporate structures, completely recasting their reports of financial dealings. Numerous operations were laid bare that were clearly fraudulent in character.

DR. CRAWFORD:

And he had deliberately maintained a complicated corporate structure to conceal what he was doing?

MR. KOHLER:

Yes. He had established layers of corporations, one on top of another, for example.

DR. CRAWFORD:

Did that create an auditing problem? Was Andersen able to unravel this?

MR. KOHLER:

Oh, yes. Easily. But there existed problems of valuation that Insull and his brother had concocted. This brother, by the way, moved to Canada, as you may know, and escaped prosecution here.

At that time I gave several talks dealing with the Insull debacle before professional societies. My name had already been associated to a limited extent with power problems and I think that some of the TVA people had heard about that and thought that

MR. KOHLER: since I had maintained a "public" point of view I
(Cont'd.) might fit into their situation.

DR. CRAWFORD: I wonder if you could explain more about the
situation you found in regard to IBM equipment when
you went to TVA. Do you think there were any
lessons for TVA's management in that?

MR. KOHLER: Yes, there certainly were. Moreover, when
I arrived, the Board of Directors told me that I
would have a completely free hand. And they said
among other things that I would be getting into the
question of IBM equipment, of which there had been
a whole roomful, with half of the equipment lying
idle. Within a month we were rid of all of it.

They had been getting out inconsequential
monthly reports of all kinds. Someone would make an
inquiry or raise a particular question, say, on what
something was costing currently. A report would be
prepared which may have satisfied that individual,
and that was all he wanted, but the report would
continue month after month. I found a whole block
of reports no longer serving any useful purpose.
To point up that problem I discontinued all reports

MR. KOHLER:
(Con'td.)

for a period of two months. I waited for an explosion. Only two telephone calls came in as a result. They were both from clerks who wanted to know what had become of the reports they had been filing each month. In both of those cases I asked them who used the reports. And they said, "nobody but we are supposed to keep them." Those reports were one hundred percent useless and unused.

DR. CRAWFORD:

Do you believe management might do well to be a little skeptical of the claims of the equipment suppliers?

MR. KOHLER:

Exceedingly skeptical, and that applies to the Federal government at the present time, by the way. Between eighty and ninety percent of all computer equipment produced in America is either owned or rented by the Federal government today. In most cases I would say that it has been greatly oversupplied.

Equipment dealers, by the way, who handle computers and EDP equipment are skillful. They know how to produce exotic reports which can be characterized as a little

MR. KOHLER:
(Cont'd.)

information in a big hurry. But whether or not reports are useful after once being looked at is another thing. I am always in favor of discontinuing reports from time to time and finding out whether anything is lost thereby. In the case of the TVA not one of those hundreds of reports was serving any useful purpose.

DR. CRAWFORD:

Would you estimate that a certain percentage of government computer equipment now is not being fully used?

MR. KOHLER:

I would say about seventy-five percent. Of course this is an informal statement but if necessary I think I could back up that figure from studies already made by the GAO.

DR. CRAWFORD:

Well, that's a large area of waste in the American economy in the quantity used by government.

MR. KOHLER:

But it does make a profit for IBM. Most of its product is on a rented basis and rentals are a key source of IBM income. That income persists month after month, and now instead of decreasing it is on the increase.

MR. KOHLER:
(Cont'd.)

Back in those days it was called punch-card equipment. Now the equivalent work is done by computers. Of course there are differences. But essentially from the bookkeeping point of view all a computer can do--all a punch-card system can do--is provide totals for groups of transactions and assemble them quickly. It can't do anything else. For example, in some of the department stores today you have computer equipment which will yield total daily sales by departments, sales persons, and so on. The old method would take an extra day or more.

DR. CRAWFORD:

Well, it is a labor saver for what it does.

MR. KOHLER:

Yes; but the questions I always ask are, even in the case of a department store: Who wants that figure every day? Who or what would suffer if that report were delayed one day? Who would suffer if it were delayed two days by employing a less expensive method?

Now, the point is soon reached where you have to consider the worthwhileness of every report from the standpoint of the potential user. Some reports could be used profitably that aren't used; other

MR. KOHLER:
(Cont'd.)

reports are used in part, and reports that aren't being used at all. Typically there are several classes of reports that computer equipment makes possible. And in all cases my approach to the problem where I have had anything to do with it is to test each report: not a test based on anyone's marveling at the way in which the report is produced--which is often the case. Statements can be produced by certain types of automatic precesses that no one could produce by any other means.

For example: the sales of any organization. Just think of the different classifications you can make of sales. Geographical sales, departmental sales, sales by individuals, sales of certain new products compared to those of older products. Classifications within departments by types. And so on.

In the case of a capable and active management much of that is necessary. On the other hand if it isn't necessary, isn't being used, then the accountant must come to some conclusion as to whether a given report has been well designed and could be usefully employed. If it happens to be only a

MR. KOHLER:
(Cont'd.)

potentially useful report which isn't being put to good use he may have an educational job on his hands that may involve even a department head. Some reports could be used, for example, in the department store where department heads change frequently. If a merchandise manager doesn't produce by attaining an assigned rate of gross profit or attaining a certain rate of turnover, or keeping his sales help and inventories within prescribed dollar levels, he is in trouble. He requires prompt figures and reports that are not debatable.

Sometimes the trouble is the reporting system, sometimes the use of information on which prompt action could be taken but isn't.

DR. CRAWFORD:

Now, a good deal of activity can be wasted can't it?

MR. KOHLER:

Yes. But the accountant can often promote efficiency within his organization by making possible the production of reports that can lead to prompt action: even a departmental reorganization, the abandonment of profitless products, and so on.

DR. CRAWFORD: If we could get to a few other matters, Mr. Kohler, when you arrived at TVA you found the books needed to be put in order. Now, TVA by that time had been in existence for several years . . .

MR. KOHLER: Five.

DR. CRAWFORD: Why so slow?

MR. KOHLER: Partly because of the bookkeeping equipment and the lack of any real supervision over that equipment. The supervision was in the hands of a clerk who operated the equipment and he was not an accountant. He was a person supplied by IBM and he knew nothing about accounting. It was up to him to imagine what accounting was required. Out he went and the equipment followed quickly.

DR. CRAWFORD: So the reports were bad at the time?

MR. KOHLER: The books were two years behind and even then they were inaccurate for the first three years of the TVA's existence. I found I had to abandon all the existing bookkeeping records for those five years ended June 30, 1938. And with the competent group

MR. KOHLER:
(Cont'd.)

of accountants I had assembled from all sorts of sources we rerecorded hundreds of thousands of transactions and put them in proper order within two very busy months; then another month to prepare reports for each of those five years. They were completely different from the reports prepared for the Appropriations Committee of the Congress. We paid no attention to those earlier reports because they had been both inaccurate and incomplete, not even worth correcting.

DR. CRAWFORD:

Can you explain something about the exceptions which were cited by the Edison Electric Institute? What kind were they?

MR. KOHLER:

They were exceptions that had been made by clerks in the General Accounting Office in Washington. Before June, 1936 a truckload of vouchers was being sent to that Office every month--paid vouchers. The General Accounting Office would then take these vouchers and put them through a so-called audit process, which meant absolutely nothing from my point of view. They weren't really audits. They were nit-picking operations. They would find a signature they couldn't recognize, a date missing,

MR. KOHLER:
(Cont'd.)

transactions they couldn't understand, or something else that might occur to them. And they would make what they called an exception. An exception advice would be written out in longhand and transmitted to the TVA. On this document would appear the nature of the transaction as they understood it, the date, and the thing they had found fault with. There were three or four thousand of those exceptions that had accumulated. None of them had been examined because the TVA felt they were trivial and not worth bothering with.

On the other hand the Congress was very much interested in them. The Attorney General had reported to the Congress that TVA had had many improper transactions. When I was testifying before the Joint Investigating Committee in 1938, by common consent, even with the approval of the GAO, I had reduced the number of exceptions to seventy-nine. I went item by item over each of the seventy-nine transactions explaining them in detail and coming to the conclusion that they were all, indeed, trivial, that no illegality was involved, and that the transactions they represented were all in good order; they had been misunderstood by the GAO, some of them

MR. KOHLER:
(Cont'd.)

I think I was successful in demonstrating, intentionally. For example, I cited yesterday the case of a drugstore that was supposed to be losing several thousand dollars a month that TVA owned. Actually the drugstore had been leased to a druggist from Clinton, who established a drugstore and lunch counter and was making money out of it and paying TVA a monthly rental on the property he occupied. The TVA had never lost money on that drugstore. It never owned a drugstore and it was getting income from the rental of the building occupied by the drugstore--two hundred dollars a month, as I recall it.

DR. CRAWFORD:

But you didn't find any . . .

MR. KOHLER:

So that was a deliberate fraud on the part of some clerk in the General Accounting Office who made up that story. GAO's rating of clerks was based on the number of exceptions they prepared.

DR. CRAWFORD:

You found no exceptions of any seriousness did you?

MR. KOHLER:

No. There were no real exceptions whatever. All the transactions were in good order. One reason

MR. KOHLER:
(Cont'd.)

for that was the fact that voucher number one for the TVA was office-audited by A. G. Robertson, now deceased. He had had many years of public accounting experience, was a CPA, and was semiretired. When he heard about the TVA he went down there and got a job because he thought a government project on such a grand scale was something he wanted to be identified with. They made him TVA's voucher auditor which meant that from the very beginning he and his assistants had preaudited every TVA cash expenditure.

All the paid vouchers of the TVA were in fine order, with adequate explanations attached to them, many of which Robertson had originated himself. He was rightfully proud of the way in which those vouchers had been kept, and chagrined of course by the kind of untruthful reporting that the General Accounting Office had been making. I stopped that flow of vouchers to Washington one hundred percent. I wrote the General Accounting Office that if it wanted to make an audit of TVA operations to send qualified auditors to Knoxville.

DR. CRAWFORD:

I suppose you kept that letter didn't you?

MR. KOHLER:

It is down there somewhere, yes. I never thought of looking for it but right now it would be a wonderful document to dig up. In reply the GAO wrote me in a strange language starting out with, "There has been received letter from you as follows." That is the way all GAO's letters started in those days. Then they would duplicate their correspondent's letter completely. If it took five pages they would have five pages of duplication. Then they would answer it at the end, perhaps in a few words. Strange, strange methods in those days.

DR. CRAWFORD:

Did you have any difficulty as a result of not continuing to transmit paid vouchers to Washington?

MR. KOHLER:

Yes. A lot of it. I was damned by the Edison Electrical Institute, by the Chicago Tribune, and by the GAO itself in a very haughty way because they knew there were certain officials in the GAO, long since disassociated from that office, whose inefficiencies I had challenged and they were unable to deny. Just think of a two thousand dollar girl clerk auditing a transaction that had taken place five hundred miles away from Washington. How could she do it? How could she even review it and make up imagined

MR. KOHLER:
(Cont'd.)

wrongdoing--when her GAO ratings were dependent on the number of faults she could assert?

So, it wasn't until the audit had been completed toward the end of the year by Lybrand, Ross Brothers and Montgomery after our books had been completely rewritten that public confidence began to be restored again in the TVA; this firm of certified accountants had in December given us an unqualified opinion covering the five-year period, accompanied by my own exhibits that I had filed two months earlier with the Special Investigating Committee of the Congress.

DR. CRAWFORD:

When you went to TVA you were told by the board you would be given a free hand in your work?

MR. KOHLER:

Yes.

DR. CRAWFORD:

Did you actually find that you had a free hand while you were there?

MR. KOHLER:

Yes. Absolutely. There was no question of it. TVA's management cooperated with a good deal of enthusiasm and TVA's operating and financial controls

MR. KOHLER:
(Cont'd.)

were in line with my recommendations. At that time they had a separate budgetary officer--something I didn't believe in then and don't believe in now. On the other hand it was a custom that had been started there and there was no real difficulty involved. Paul Ager was the budgetary officer, who's name you have mentioned. And he did a very good job, cooperated with me completely, and I cooperated with him in whatever he wanted in the way of information. So that was never a real problem although from an organizational point of view a budgetary officer ought to be under the Controller. In many cases the controller is also the budgetary officer.

DR. CRAWFORD: Did the position of the Controller in TVA change while you were there?

MR. KOHLER: Yes--changed to this extent: that he became more or less responsible for setting up the management controls over the whole authority. In other words when management or operating changes were made, the controller's opinion was sought to make sure he approved the change and also to describe and coordinate the functions of the activity changed. Frequently the controller took issue with those that

MR. KOHLER: were establishing new projects and new programs
(Cont'd.) and it became a matter of weighing the recommendations
of the controller against those of the aspirant of
some new project or some revision of an old project.
Is that clear?

DR. CRAWFORD: Yes sir.

MR. KOHLER: In many organizations, private and public,
the controller has that job. But he didn't have in
the TVA up to that time. In fact it was somewhat
new even in private business to have management
policies participated in by the accountant. In the
old days, say in the 19th century, the accountant
occupied a very servile, wholly clerical, position.

DR. CRAWFORD: Well, that was a change in TVA wasn't it?

MR. KOHLER: It was. It was not only a change in the TVA
but a change in the methodology of operating a
Department of Finance.

I can recall that I set up a little organizational
chart after I had been there for a few months and

MR. KOHLER:
(Cont'd.)

on it I had nine persons reporting directly to me. That was considered anathema by the Personnel Department because its director pointed out to me that in a recently published book dealing with the science of administration a department head should have no more than three people reporting to him. You probably have never seen this book because it is completely outdated now. So they said I had three times that number and therefore that my operation must be inefficient. I simply told them, "well, if it is inefficient then you will have to point it out to me. Because it is going to be that way as far as I am concerned. And I don't think that anyone is really going to make an exception to this. But of course you're not really making an exception to it: you're just pointing out the errors of my ways." They said, "Yes, that is all we can do."

In those days the Personnel Department in governmental agencies was responsible for setting up the plan of an agency's organization because it had to write up the job descriptions. Job descriptions reflected the function being served and frequently the official language completely divorced the job from reality. Job descriptions in the Federal government

MR, KOHLER:
(Cont'd.)

up to the World War II were about the lousiest ways of describing how an organization should operate and how it did operate because of the grandiose terms and in terms you couldn't possibly identify a man with a job. My problem was to set up an organization where the description of the job could be realistic and a description based in part on the man I had in mind for the job. If I have a certain type of a man as an assistant I certainly would want the job redesigned--to fit the man. Personnel people in those days paid more attention to changes in management procedures possibly to be brought about by changes in personnel.

TVA's personnel department belonged to the old school.

Formerly you might look long for a person to fit into an inflexible job description. You couldn't take advantage of any special talent that a person might have whereby he could contribute something to the organization.

That was the accepted method at that time, looking at management from the bottom up, as did

MR. KOHLER:
(Cont'd.)

Taylor and Gant of "scientific method" fame. If you don't have the proper people at the top how can you have anyone properly placed in a bottom position? That was a concept discussed for the first time in a book published in 1939 by a professional group sponsored by the Standard Oil Company of California: a tree-man task force to study top management.

Their findings were put into a book, Top Management Organization and Control in 1939 which was given little attention at the time because the war came on and the concept of good management was laid aside. Interest revived after the war ended. The book took up the problem of how top management functioned in thirty-two of the largest corporations in this country. They found thirty-two more-or-less successful methodologies, strikingly different in some cases, as to how management should occupy its time. What does the president do? What does he contribute? In many cases they found him to be mainly the goodwill agent for the organization. He knew little about what was going on inside. He didn't pass on the budget. He didn't do anything except make sure that public relations did not suffer.

MR. KOHLER:
(Cont'd.)

All that has changed today. Now, you have to have a corporate head who knows what he is doing and who can deliver a paper on a technical subject concerned with his organization. If he can't do it he doesn't stay on the job very long.

What I tried to emphasize was the notion that to operate the TVA the Board of Directors had to know what was going on in every sense of the term throughout the organization. Not only that, they had to initiate, maintain, and approve what was going on. They had to make judgments as to the worthwhileness of what was being done: the nature of the programs, adequacy of controls, initiation of new programs, relations with the Congress, the Director of the Budget, and the GAO. And it was their job to maintain contacts and know that public relations are what they should be from the standpoint of good management. Some of this was a completely new concept. It was easy to see that management had only a restricted view of operating responsibilities. It didn't know how to define it. But from its point of view the emphasis was on relations with other organizations, the relations of the TVA with the Congress--the maintenance of the goodwill of the Congress. These

MR. KOHLER: were management's principal jobs in order to maintain
(Cont'd.) good relations with the community. Lilienthal did
a very earnest job in that respect.

DR. CRAWFORD: And Harcourt Morgan did a great deal in that,
I believe.

MR. KOHLER: Yes, he did. They were both at it all the
time.

DR. CRAWFORD: Did you have difficulty in instituting this
new idea of management that you brought with you
to TVA?

MR. KOHLER: None whatever. They all accepted it and they
all fell in with it. It was a natural evolution.
I did it in this way. To start with, instead of
outlining it in rigorous terms and in terms I would
have had to change, I had to know more about the
organization. I worked at a certain level. I worked
up and down at the same time. I got acquainted
with an operation and tried to establish the accounts
and suggest the management processes and the kind of
reviews that should be made, and sold that at the
intermediate management level. Since at that

MR. KOHLER:
(Cont'd.)

time the principal operation of the TVA was constructing dams, I worked through the Chief Engineer of the TVA, Ted Parker. He and I, as I indicated to you yesterday, got along together famously. After I had been on the job only two days he paid me a visit one evening and we promptly came to terms on major issues. He found I had the same ideas that he did regarding some of the changes that ought to be made. Consequently, anything that I did he would support vigorously even though it didn't concern his particular range of operation. But there was hardly anything that the TVA was doing at that time that didn't have something to do with engineering. He was tremendously helpful. I confined myself as far as possible to the current operations, making sure that what we instituted would stick and also that it would be acceptable by everybody--not only the people on top but the people on the operating level.

The Personnel Department gradually faded out of the management picture. Because no one else was doing it, they had been the ones that determined what the management processes should be, regardless of the people available, as I

MR. KOHLER:
(Cont'd.)

told you before. That was not acceptable because they had proposed a lot of things in the way of management policies that weren't being followed, including a management manual. I didn't read more than four or five pages in it before I laid it aside. It wasn't going to do me any good. It had to be something that was operable: something that was related not only to good management but to people--the people working on everyday matters--the people they were reporting to, at higher levels.

DR. CRAWFORD:

How long did it take for you to secure this management level you wanted?

MR. KOHLER:

About four or five months.

DR. CRAWFORD:

When did you leave TVA and what was the state at that time?

MR. KOHLER:

I went there on May 1, 1938 and I left there in 1941, after the report had been issued for that year, and went to work for the War Production Board in Washington. I felt that my duty was to get into the war effort and that is why I changed. Also I felt that I had accomplished what I had hoped for and

MR. KOHLER:
(Cont'd.)

that there were people who could carry on and who believed in what I had been doing. My continued presence there would have meant simply that I would be occupying an administrative position. I like administrative work but on the other hand its deadly if you have to do the same thing day after day. I felt that what I had been doing had been creative and that I could leave those everyday operations to people I thought could do a better job at it than I. I never liked a daily routine--doing certain things at ten o'clock in the morning and certain things at three o'clock in the afternoon, day after day. To me that was too much of a daily routine.

DR. CRAWFORD:

Thus far we have dealt mainly with procedures that you instituted in TVA. While you were there what people did you see that seemed to supply good management to the authority?

MR. KOHLER:

What people?

DR. CRAWFORD:

Yes. What people made the best managerial or leadership contribution?

MR. KOHLER:

Well, I think that as a whole the potential

MR. KOHLER:
(Cont'd.)

managers were already there. I had an assistant, in fact two or three assistants, who had worked well with me; they constituted a group that had actually trained management. I felt that one of the best men I had was the one I made assistant controller--Jerry Stone.

There was a man by the name of Smith who was also assistant comptroller. I think you mentioned his name yesterday. He was a fine operator but his health wasn't good and he died a year or two later. Jerry Stone was an exceedingly efficient helper in every respect. Anything I proposed he would carry out, not only loyally but understandingly. He helped refine numerous ideas. He would go to work promptly and took pride in reporting back that the job had been done. Nothing stopped him. I arranged his work in such a way that when he would get into a project, there was nothing to interfere with it. He would put his heart and soul into it, because he was that kind of a fellow. That is a good case of where some might have declined the job of assistant controller. It wouldn't effect him at all. And when I left he was dissatisfied with my successor--a man who had been a partner of Arthur Andersen. He

MR. KOHLER:
(Cont'd.)

carried on. He definitely said that he was going to do and not interfere with anything that I had done. I got letters from him regularly; he would explain what the problems were and would ask how I would solve them.

I hesitated to reply to those letters. I didn't want to interfere. That is one reason that I never visited the TVA from time to time. The last time that I was in Knoxville was a couple of weeks ago. I felt enough years had elapsed and so anything that I might say wouldn't have any effect.

DR. CRAWFORD:

Is there anything else particularly you want to mention for the record at this time, Mr. Kohler?

MR. KOHLER:

Regarding the management?

DR. CRAWFORD:

Yes, sir.

MR. KOHLER:

I don't think so. I think what I had said gives you the general picture of what still goes on. Of course, I could go into the details of functions and how they had been carried on before and after, but that would be an endless, and possibly not fully

MR. KOHLER:
(Cont'd.)

accurate on my part after the lapse of thirty-odd years.

As I think back over what I have said, yesterday and today, the first person singular may appear to dominate the scene. Most of the decisions made and the things that got done in that year of change--1938--came to pass not as the result of unilateral or arbitrary action on my part but as joint adoptions in which many were participating. Nothing was done without the knowledge and consent of the TVA's Board and TVA's general manager, Jack Blandford, a post that had been created by the Board in 1937. One way of putting it is that I took advantage of latent ideas already emerging and concepts that were already beginning to be translated into purposeful performance. The endproduct was what seemed to me to be a happy synthesis of proposals by man, and their conversion into action programs. One example of this was the allocation report I mentioned to you yesterday--two years of research had been completed and varying proposals had been made which someone had to fuse together into a single, simple joint conclusion. Another example was the determination of the computation of tax equivalents--payments to be made to states and local

MR. KOHLER:
(Cont'd.)

authorities for TVA's acquisitions of land which had been removed from property-tax rolls. I proposed the adoption of the so-called "Massachusetts Plan" whereby a tax base would be formed from a combination of local-power sales and the book value of fixed assets installed in the tax area. After a committee had considered the matter for several months, the plan, with minor variations, was adopted early in 1939; last year these payments exceeded \$25 million, with another \$27 million paid by TVA distributors.

Throughout those pleasant years with the TVA there were constant interchanges of ideas, continuous cooperation with management--including activity heads--and a molding of concepts from many sources that I see reflected in TVA's monthly financial statements of which I am still a recipient.

DR. CRAWFORD:

Thank you very much, Mr. Kohler.

HECKMAN
BINDERY INC.



AUG 88
N. MANCHESTER,
INDIANA 46962

